CHARACTER ISSUES


HARika Anna Barlett and Daniel B. Klein


This document forms an Appendix to our main article on Paul Krugman. The main article highlights certain characteristics of Krugman’s 654 New York Times columns 1997 through 2006. The case rests in large part on an investigation of what is not found within that body of writings. It suggests that Krugman is primarily interested in advancing a social-democratic political ethos.

The purpose of this Appendix is to cover in more detail the ground of what he does say. Here we summarize and characterize the main themes and ideas found in the 654 columns. This review supplements the main article by showing that the main themes and ideas have been largely congruent with the characterizations made in the main article. It also helps to demonstrate the thoroughness with which we have read and studied the 654 articles, and in that way may help to assure readers of the diligence and fairness of our treatment of Krugman.

The 654 NYT columns covered the subjects listed in Table 1 (this table is the same as Table 1 in the main article). Here we summarize most of the major themes and positions found in Krugman’s 654 columns. Our summary does not follow the topic listing provided by Table 1. Rather, we simply develop 16 headings that seem to us to stand out as the main messages of the corpus of work.

Major Policy Judgments and Themes Expressed in the 654 Columns

Fiscal Policy and Taxation: As the economy grows, so does the public’s demand for government services. When things are good, the government should pay off its debts and build...
Krugman strongly endorses redistribution through taxation. He regards the welfare state as the most decent social arrangement yet devised (Krugman 1995). He advocates responsible fiscal policy—running surpluses and paying down the debt. He vehemently opposed Bush’s tax cuts and proposal to privatize Social Security. Krugman believed the tax cuts would benefit only the rich and would greatly reduce the progressiveness of the tax system, in addition to reducing the budget surplus. He claimed a partial privatization of Social Security would not provide a solution to meeting existing obligations unless substantial funds were transferred over from general revenue.

A strongly progressive tax system, he says, helps limit economic inequality (6/19/06). He considered tax cuts for the wealthy not just as a fiscal issue, but one with moral dimensions: “Congress has already declared that the budget deficit is serious enough to warrant depriving children of health care; how can it now say that it’s worth enlarging the deficit to give Paris Hilton a tax break?” (6/5/06). Krugman supported “the principle enunciated by Theodore Roosevelt,

### Table 1: Paul Krugman’s NYT Articles 1997 through 2006

<table>
<thead>
<tr>
<th>Topic</th>
<th>Number of articles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxation/tax cuts, government programs, budget deficit, and fiscal responsibility</td>
<td>124</td>
</tr>
<tr>
<td>Monetary policy</td>
<td>31</td>
</tr>
<tr>
<td>Economic, growth, and income inequality</td>
<td>64</td>
</tr>
<tr>
<td>New economy and the stock market bubble</td>
<td>17</td>
</tr>
<tr>
<td>Globalization and free trade</td>
<td>21</td>
</tr>
<tr>
<td>Oil prices</td>
<td>8</td>
</tr>
<tr>
<td>Appointments/nominations of leaders at major financial institutions</td>
<td>7</td>
</tr>
<tr>
<td>Social security reform/privatization</td>
<td>41</td>
</tr>
<tr>
<td>Regulation/deregulation</td>
<td>35</td>
</tr>
<tr>
<td>Health care system</td>
<td>32</td>
</tr>
<tr>
<td>Microsoft’s monopoly case</td>
<td>7</td>
</tr>
<tr>
<td>Corruption and accountability in government and business</td>
<td>82</td>
</tr>
<tr>
<td>Elections</td>
<td>30</td>
</tr>
<tr>
<td>Government’s role in emergency management</td>
<td>10</td>
</tr>
<tr>
<td>National security, Iraq war and war against terrorism</td>
<td>81</td>
</tr>
<tr>
<td>Global warming and disinformation</td>
<td>5</td>
</tr>
<tr>
<td>Others</td>
<td>59</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>654</strong></td>
</tr>
</tbody>
</table>
who called for an inheritance tax in 1906: ‘The man of great wealth,’ said T.R., ‘owes a peculiar obligation to the state.’” (6/9/06)

Krugman regards taxation to be a natural obligation of citizens. In one of his writings about digital technology revolution, he warns that it has become much easier for companies and individuals to arrange their lives in such a way that “the taxable bits show up where the tax bite is lowest.” As technology has been erasing boundaries that are used to define tax jurisdictions, he points out the loss of effective boundaries threatens something important: the ability of governments to collect revenue (7/30/00). He also criticized the administration for not denying the U.S. companies opportunity for tax evasion:

In fact, we’re losing revenue because profitable U.S. companies are using fancy footwork to avoid paying taxes. … By incorporating itself in Bermuda, a US-based corporation can—without moving its headquarters or anything else—shelter its overseas profits from taxation. … this isn’t about competition; it’s about tax evasion. … The natural answer would seem to be to crack down on the evaders … But here’s the key point: Administration officials don’t want to help collect the corporate profits tax. Unable to push major corporate tax breaks through Congress, the administration has used whatever leeway it has to offer such breaks without legislation. … The trouble is that hinting, even by silence, that it’s OK not to pay taxes is a dangerous game, because it can quickly grow into a major revenue loss. … Furthermore, what does it say to the nation when companies that are proud to stay American are punished, while companies that are willing to fly a flag of convenience are rewarded? (5/14/02)

Krugman supports high taxes on fuel in Europe, because in his view, any tax that served a social purpose over and above the revenue it raised, such as discouraging traffic congestion, is justified. He wrote against the gasoline tax cuts in both U.S. and Europe as they would not help reduce the prices at the pump, and would most likely distort the market when supply is inelastic (9/17/00; 3/15/00). Additionally, in order to reduce emissions in the U.S. and prevent global warming, he recommended an across-the-board carbon tax, which could and should be offset by tax cuts elsewhere (11/29/00).

Even though Krugman once mentioned that he opposes Europe-style systems that generated comprehensive health and unemployment benefits and long mandatory paid vacations at the expense of jobs (3/29/00)², he later considered

---

² Krugman writes (3/29/00): “If you don’t want a society in which everyone is desperately trying to get ahead in a zero-sum status game, you might advocate government policies that slow down the rat race: high tax rates, generous health and unemployment benefits, long mandatory paid vacations, maybe even...
taxation of the wealthy to be fair when there is a need to help the less well-off: “Any senator who votes to repeal the estate tax … is in effect saying that increasing the wealth of people who are already in line to inherit millions or tens of millions is more important than taking care of fellow citizens who need a helping hand” (6/5/06).

He extensively criticized the Congress for voting to repeal the inheritance tax that “yields $30 billion per year, yet does not touch the vast majority of their constituents” since it is paid by “only a few thousand multimillion-dollar estates.” He claimed this amount was roughly what the federal government spent on the earned-income tax credit, “a program that helps millions of poor workers,” yet the tax was levied “almost entirely on the very, very well off” (6/14/00).

Krugman says the demand for government services grows with the economy: more air traffic to control, more homes to protect from forest fires, and more national defense, which takes half of discretionary spending. Krugman asserted the basic rule of fiscal responsibility for a national government was very much the same as the rule for a family: pay off your debts and build up financial reserves when things are good, so that you can draw on those reserves later (10/18/00).

He maintained that most of the federal government surplus came from Social Security and Medicare programs that rely on payroll taxes to pay benefits to retirees; and added that these programs must run surpluses while the baby boomers are still paying into them if they are to avoid either sharp tax increases or sharp benefit cuts when the boomers retire. He stated that a surplus did not mean the government was collecting too much in taxes, but it was mainly a matter of preparing for the fiscal consequences of an aging population:

The responsible thing … for the federal government is not to give up on planning for the future; it is to make alternative investments. And if this means that the Social Security and Medicare trust funds must buy stocks and bonds from the private sector, so be it. Some people … have made it seem as if any purchase of private-sector assets by the trust funds would instantly politicize the financial markets and undermine the foundations of the free-enterprise system. But that’s ideology, not analysis; people who have looked seriously at the issue think that these concerns are vastly overblown. There are well-established techniques for protecting government investment accounts from political meddling, such as legal require-

a limit on individual working hours. In other words, you might want to turn America into France. But France has an unemployment rate more than twice as high as America’s, largely because of those same government policies. And unemployment—even comfortable European-style unemployment—makes people very unhappy, because it is demoralizing.

Is there any way out of the dilemma? Well, East Germany had full employment without a rat race—but it fell a bit short in the life and liberty departments. I’d say that given the alternatives, the American system, though not beautiful, still takes the prize.”
ments that the funds buy a broad index. Are these techniques imperfect? Maybe—but who would argue that rather than running some slight risks of politicizing the markets, we should squander the money that was supposed to pay for our retirement? (2/14/01)

He claimed that in Post-Clintonian America the median voter wanted a government that was neither much bigger nor much smaller than its current size. Krugman calculated that keeping the size of government about the same would mean, with adjustments for inflation and growth in population, the government would need most of the expected big surplus, which would leave about $400 billion for tax cuts. Therefore, he concluded when George Bush offered $1.3 trillion in tax cuts, he must have had in mind a sharp scaling back of government programs (2/2/00).

Krugman did not believe that long-term tax cuts could be a way to stimulate spending in a short-run economic slowdown (3/28/01). Additionally, he claimed tax cuts for the affluent would not stimulate spending, since they were the least likely group to spend the additional money (10/4/02).

He also wrote against retroactive tax cuts, claiming that the idea did not make sense, because the conservatives as supply-siders wanted tax cuts in order to increase the incentive to work hard and take risks. But, he argued, a cut in the taxes due on the income you have already earned couldn’t provide an incentive to earn more (2/7/01).

Krugman stated that, after generous tax cuts that go mainly to the affluent people, the only way Bush could pay for other government programs, including defense and prescription drug coverage, was by “raiding Social Security and Medicare,” and claimed:

the Medicare surplus, like the Social Security surplus, should not be considered available for tax cuts or new spending. The two programs both rely on taxes paid by working-age Americans to pay for benefits to current retirees, and both face a demographic crisis as the baby boomers get older. (2/4/01)

He warned about fiscal disaster scenarios:

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 GDP 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 govern-
ment 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. (2/14/03)

Krugman believed the reach of government programs should be extended,
and Medicare should provide drug coverage. If the government were to imple-
ment tax cuts, they should be designed for the middle class and the poor. He ar-
gued the tax cuts did not have to be on income taxes; a much easier way to target
working families would be cutting other taxes, since the bottom two-thirds of
American taxpayers actually paid more in other federal taxes, including Social
Security and Medicare contributions in payroll taxes, than income tax (9/10/00;
2/7/01; 2/11/01).

Krugman considered President Bush’s budget proposal to be top-down
class warfare in action (2/11/05); and claimed that one of the proposed spend-
ing cuts would make it harder for working families with children to receive food
stamps, terminating aid for about 300,000 people; another would deny child
care assistance to about 300,000 children, again in low-income working fami-
lies, while the budget showered largesse on millionaires. As the budget surplus
turned into deficit, he accused the administration of irresponsible spending, and
blamed tax cuts for cuts in domestic discretionary spending, which would bring
savage reductions in education, health care, veterans’ benefits and environmental
protection by 16 percent (adjusted for inflation) between 2005 and 2010 (2/11/05;
2/10/06).

When the tax cuts continued at a time of large budget deficit, Krugman
declared (5/27/03) that the Bush plan for Social Security was not aimed to save
it, but intended to create a fiscal crisis that would justify cutting government pro-
grams and dismantling the most important achievement of the New Deal:

[T]he man who ran as a moderate in the 2000 election is actually
a radical who wants to undo much of the Great Society and the
New Deal. ... federal taxes are now back to what they were in an
era when Medicare and Medicaid didn’t exist, and Social Security
was still a minor expense. How can we maintain these programs,
which have become essential to scores of millions of Americans,
at today’s tax rates? We can’t. (6/6/03; also the same argument in
11/7/03; 2/15/05; 5/2/05)

Krugman asserted that many people, including military leaders, who were
enthusiastic supporters of the tax cuts, started to have second thoughts after real-
izing that the tax cut precluded big budget increases, and that the public opposed
program cuts (7/29/01; 12/23/05). He maintained that voters at the state level
Pa ul Krugman's Ch aracter

VII                       Vo l u m e 5, nu m b e r 1, Ja n u a r y 2008

elections sent a message that they wanted a stronger, not weaker, social safety net, which should come at the federal level (5/23/05).

In Krugman's view, it is government's responsibility to provide a wider distribution of wealth created by economic growth, and tax cuts simply work against that government responsibility. He stated that the U.S. economy today is far richer and more productive than it was a generation ago, yet in spite of all the technological progress, there was not a considerable rise in the typical worker's pay. Only those at the upper end of the income distribution saw clear gains. His suggestion was an increase in government programs to help the poor:

What we should be debating is why technological and economic progress has done so little for most Americans, and what changes in government policies would spread the benefits of progress more widely. An effort to shore up middle-class health insurance, paid for by a rollback of recent tax cuts for the wealthiest Americans—something like the plan proposed by John Kerry two years ago, but more ambitious—would be a good place to start. (9/15/2006)

Krugman blamed Republicans for using any opportunity to provide advantages to a narrow elite and letting the middle class disappear (6/19/06; 8/14/06). Referring to the book, Polarized America: the Dance of Ideology and Unequal Riches (McCarty et al 2006), Krugman said American politics was marked by vicious partisanship and class warfare, stemming mainly from the right (6/19/06). He claimed political polarization and economic inequality have moved hand in hand, and with the changing position of the Republican Party on economic issues, including tax advantages to the rich, a deep partisan divide re-emerged in the late 1970’s as income gaps widened (6/19/06).

Finally, after the Democratic victory in the 2006 mid-term elections, Krugman suggested that while reducing the budget deficit made sense in terms of pure economics, Democrats shouldn’t spend political capital trying to bring the deficit down, but should choose the spending, and spend “more on good things like health care reform … By spending money well, Democrats can both improve Americans’ lives and, more broadly, offer a demonstration of the benefits of good government” (12/22/06).

**Economic Recovery, Growth, and Income Inequality:** “this is no time for fiscal austerity—if anything, right now the federal government ought to be pumping more money into the economy than it is”.

In one of his early articles in 2000 Krugman argued that politics had little if any effect on economic growth, and that we did not need to elect a great man as president; all we needed was somebody who would not do too much damage (2/20/00). In 2001, however, he started asking for recession-fighting measures
from the government, with particular criticisms of Bush's tax cut plan for being ineffective against recession (3/14/01).

After the September 11 attacks, he recommended Keynesian public spending:

[T]he attack opens the door to some sensible recession-fighting measures. For the last few weeks there has been a heated debate among liberals over whether to advocate the classic Keynesian response to economic slowdown, a temporary burst of public spending. There were plausible economic arguments in favor of such a move, but it was questionable whether Congress could agree on how to spend the money in time to be of any use—and there was also the certainty that conservatives would refuse to accept any such move unless it were tied to another round of irresponsible long-term tax cuts. Now it seems that we will indeed get a quick burst of public spending, however tragic the reasons. (9/14/01; also 9/23/01)

Krugman asserted that low interest rates, which promote spending on housing and other durables, were the main answer to encourage other spending to offset a temporary slump in business investment. But he also claimed that in certain situations like after September 11 it was inevitable that there would be a fiscal stimulus package to promote current spending without worsening the long-run budget position, a package consisting of increased government spending to rebuild New York, to pay for military operations, to provide unemployment benefits, and to give money to lower-income families. Against the temporary tax breaks, he argued that you could not be sure people would spend them; and the chances were better if the money went to poorer people, whose spending was often constrained by simple lack of cash (10/7/01; 12/21/01).

After the start of the Iraq War, he claimed the economic recession was not a standard postwar recession that was engineered by the Fed to fight inflation and thus could easily be reversed when the Fed loosened the reins, but was a classic overinvestment slump, which has always been hard to fight simply by cutting interest rates. He suggested instead a fiscal stimulus to be paid by canceling the tax cuts (10/4/02, 12/27/02, and 4/1/03).

As the economy continued to grow too slowly to reduce the unemployment rate in 2002, he made the following suggestions:

Given the definitely iffy economic outlook, shouldn't Mr. Greenspan be thinking seriously about another interest rate cut? … The time to fight deflation is before it has time to get built into the nation's psychology. What about the rest of the government? Corporate reform is essential; … But we can’t count on reform to provide
an immediate boost to the economy; trust, once lost, cannot be restored in a moment. What else can the government do? With the recovery still wobbly, this is no time for fiscal austerity—if anything, right now the federal government ought to be pumping more money into the economy than it is. The obvious answer to this seeming dilemma is to loosen the reins now, but prepare to tighten them once the economy has fully recovered. For example, the Bush administration could move quickly to aid distressed state governments, avoiding harsh (and contractionary) cuts in essential programs. (7/23/02)

In 2003, he claimed that boosting a stumbling economy was not rocket science:

All a sensible plan must do is focus on the present, not the distant future; on those who are suffering, not on those doing well; and on those who are most likely to spend additional money. Right now a sensible plan would rush help to the long-term unemployed, whose benefits—in an act of incredible callousness—were allowed to lapse last month. It would provide immediate, large-scale aid to beleaguered state governments, which have been burdened with expensive homeland security mandates even as their revenues have plunged. Given our long-run budget problems, any tax relief would be temporary, and go largely to low- and middle-income families. (1/7/03)

Krugman blamed the Bush administration for the continuing high rate of unemployment. He compared Bush with Franklin Roosevelt, who was willing to try anything until he found something that worked. He suggested government should try extended unemployment benefits, temporary aid to state and local governments, and rebates for low- and middle-income workers (3/12/04 and 8/10/04).

He criticized the administration’s economic policy for not creating jobs as promised, and warned about impacts on global relations:

Mr. Bush’s employment policies would truly have been a success if he had left the job market no worse than he found it. In fact, even his own Treasury secretary thinks he’ll fall five million or so jobs short of that mark. (10/24/03)

If the public no longer believes that the economy can create new jobs, it will demand that we protect old jobs from new competi-
tors in China and elsewhere. Economists can explain until they are blue in the face why limiting exports from developing countries would be a bad idea—why keeping our markets open to new producers is in America’s interest both economically and diplomatically. But theoretical arguments for free trade will count for little if the real-world experience of jobs lost to Chinese competition can’t be offset by a credible promise that new jobs will be created to replace them. (10/7/03)

He claimed that in the current fiscal year the Bush tax cuts would account for almost $300 billion of a deficit expected to top $500 billion, and suggested new government initiatives to create employment:

Franklin Roosevelt’s Works Progress Administration put the unemployed to work doing all kinds of useful things; why not do something similar now? (Hint: this would be a good time to do something serious, finally, about port security.) (4/22/03)

If that $300 billion had been used to employ workers directly—a new WPA, anyone?—it would have created six million jobs. (10/24/03)

He also argued that job losses at General Motors were part of the broader weakness of U.S. manufacturing, and some of that weakness reflected two big distortions in our economy: a dysfunctional health care system and an unsustainable trade deficit (11/25/05).

**Labor Regulation:** *Raise the minimum wage and protect union rights.*

In 2000, Krugman criticized labor market restrictions in Europe:

Europe’s three fundamental problems … are jobs, jobs and jobs. An old joke among economists is that the European definition of a boom is a year in which the unemployment rate rises less than usual. Behind this poor employment performance lies the phenomenon of “eurosclerosis”: a labor market so clogged with government rules and regulations that European companies have had little incentive to create new jobs—especially the low-wage jobs that in the United States provide the young and minority groups with a first step into the world of work. Europeans have, of course, been caustic about the American model. And this rhetoric, whose implications we ugly Americans in turn tend to ridicule as a policy
of no jobs at good wages, continues unabated.

But if you look at what is actually happening in Europe, you discover that in the last couple of years quite a lot of job creation has in fact taken place—and much of it involves the creation of precisely the kind of low-wage employment that European governments supposedly oppose. The telltale sign is what is happening to output per worker; in the countries where employment is expanding fastest, like Spain, productivity is actually declining. This is, believe it or not, a good sign, an indicator that marginal workers are finally finding jobs.

What naive Americans failed to understand, it turns out, was the talent of at least some European societies for creative hypocrisy. The government of France, for example, continues to talk the talk of horror at the brutal American model of capitalism. In reality, however, even as the French government introduces seemingly anti-market policies like a mandated reduction in the workweek, it has quietly allowed companies to exploit loopholes in the system—using the shortened official workweek as an excuse to scrap old rules about worker scheduling, employing vast numbers of part-time workers, and so on. The result is that while unemployment in much of Europe is still extremely high by US standards, and especially so among the young, it is finally starting to come down.

Krugman once wrote against a large increase in minimum wage because it would have a negative impact on unemployment (3/29/00), but in his later writings he supported increasing the minimum wage as a way of improving the conditions of the poor, and blamed the Republicans for not increasing minimum wage, not limiting income inequality, and favoring the interests of the wealthy as part of their conservative ideology:

Can anything be done to spread the benefits of a growing economy more widely? Of course. A good start would be to increase the minimum wage, which in real terms is at its lowest level in half a century. ... Sometimes I even feel sorry for these people and their apologists, who are prevented from acknowledging that inequality is a problem by both their political philosophy and their dependence on financial support from the wealthy. That leaves them no choice but to keep insisting that ordinary Americans—who have, in fact, been bypassed by economic growth—just don’t understand
how well they’re doing. (7/14/06)

The GOP obsession with helping the haves and have-mores, and lack of concern for everyone else, was evident even in Mr. Bush’s speech to the NAACP. Mr. Bush never mentioned wages, which have been falling behind inflation for most workers. And he certainly didn’t mention the minimum wage, which disproportionately affects African-American workers, and which he has allowed to fall to its lowest real level since 1955. (7/24/06)

Finally, while we can have an interesting discussion about questions like the role of unions in wage inequality, or the role of lax regulation in exploding CEO pay, there is no question that the policies of the current majority party—a party that has held a much-needed increase in the minimum wage hostage to large tax cuts for giant estates—have relentlessly favored the interests of a tiny, wealthy minority against everyone else. (9/8/06; see also 8/18/06)

Krugman also supported strong protection of union rights, to increase wages and improve health benefits for workers, and therefore help limit income inequality (1/26/00; 5/21/00; 8/18/06; 10/6/06):

The US labor movement has every right to feel that American workers have gotten a raw deal. By standard measures, the real take-home pay of blue-collar workers is lower now than it was a quarter-century ago. You can quibble with the statistics, but without question blue-collar workers have been largely left behind by the nation’s economic growth. And far from fighting this inequality in rewards, policy has in general reinforced it: taxes have become less rather than more progressive, public schools for those who can’t afford to live in the right places have gotten worse, and so on. (5/21/00)

Wal-Mart already has a well-deserved reputation for paying low wages and offering few benefits to its employees; … it wants cheap labor that doesn’t hang around too long, but not enough workers quit before acquiring the right to higher wages and benefits. Among the policy changes … was a shift to hiring more part-time workers, … a plan to impose wage caps, so that long-term employees won’t get raises. … in some stores, according to workers, “managers have suddenly barred older employees with back or leg problems from sitting on stools.”
It’s a brutal strategy. Once upon a time a company that treated its workers this badly would have made itself a prime target for union organizers. But Wal-Mart doesn’t have to worry about that, because it knows that these days the people who are supposed to enforce labor laws are on the side of the employers, not the workers.

Employers rarely faced serious consequences for their lawbreaking, thanks to America’s political shift to the right. And now that the shift to the right has gone even further, political appointees are seeking to remove whatever protection for workers’ rights that the labor relations law still provides. … Major employers like Wal-Mart have decided that their interests are best served by treating workers as a disposable commodity… And these employers don’t worry that angry workers will respond to their war on wages by forming unions, because they know that government officials, who are supposed to protect workers’ rights, will do everything they can to come down on the side of the wage-cutters. (10/6/06)

**Monetary Policy:** It can work to avoid recession, but it requires capable officials.

Krugman asserted that monetary policy can be used to stimulate the economy through inflation and lower unemployment, improve the competitiveness of exports through currency devaluation, and control interest rates when the economy heats up too much:

Recessionary tendencies can usually be effectively treated with cheap, over-the-counter medication: cut interest rates a couple of percentage points, provide plenty of liquidity… Experience suggests that the Fed can almost always persuade consumers and businesses to spend more by cutting interest rates, but that there’s a longish lag between the rate cut and the spending increase. And that’s why we’re still vulnerable to recessions: now and then the Fed gets behind the curve, failing to recognize a weakening economy until it’s too late to prevent a slump.... We don’t need to fear a recession; if it does happen, it’s something that the Fed can easily cure. What we do need to fear is fear itself: the all-too-likely prospect that the threat of recession will panic us into doing things we will regret for years to come. ... like tax cuts—which won’t cure the short-term slowdown, and will undermine our long-run fiscal health. (12/27/00)

He argued it was the Fed’s monetary policy that was responsible for Reagan
era economic growth (6/11/04), and claimed that almost all economists today agree that monetary policy, not fiscal policy, is the tool of choice for fighting recessions (1/10/01). The key is having the right officials in the decision-making positions; they would use monetary tools in a timely manner to prevent economic crises (2/25/01; 3/4/01; 5/24/03). He believed the Fed under the leadership of Greenspan moved quickly in 2000 to control inflation:

Clearly it’s time for the Fed to tap the brakes, to reduce the growth of demand enough to bring it into line with the growth in supply. … Bad things do happen when the Fed is in inflation-fighting mode: the monetary contraction that began in 1979 eventually drove the unemployment rate into double digits. But back then the Fed was dealing with an economy in which inflation had been out of control for years, long enough that expectations of continuing inflation were deeply embedded in the national psyche; the Fed needed to take drastic measures in order to restore price stability. Those drastic measures, and the bad times they caused, wouldn’t have happened if the Fed had moved quickly to control inflation before it had time to get established—if, in other words, the Fed of the 70’s had done what Mr. Greenspan is doing now. (5/24/00)

However, Krugman also warned that with the wrong advice and policies, the leaders of a major economy may give a different message to the markets that would cause monetary policy to lose its effectiveness, or make the mistakes that allow an economic slump to go on for a long period (6/28/00). He made this case in 2001 when Fed moves did not reduce long-term interest rates, mainly because of other government acts that gave the message that there was not enough money in the budget after the tax cuts so the federal deficit would return and the government would be borrowing money rather than paying off its debt (12/14/01).

While relying on the Fed to keep the economy on a steady course, Krugman also emphasized the importance of leadership at the Fed, a position that must be filled with great discretion, so that in the case of a recession “the Fed will be able and ready to react, whoever is or isn’t president” (12/3/00; also 8/6/00 and 1/17/01).

Krugman recommended monetary policy tools to Japan, whose insufficient consumer and business spending was leaving much productive capacity unused. Since reducing interest rates has not worked, even though the Bank of Japan had cut the equivalent of the Fed funds rate all the way to zero, Krugman suggested the Japanese government supplement deficit spending with pumping money into markets, to replace deflation with moderate inflation (2/9/00; 5/14/00; 8/13/00; 4/25/01; 7/8/01). He argued that, in the case of a bursting bubble, if the situation turned into an overall recession, it would be the central bank’s fault not to inte-
Privatizing Social Security: You can’t justify privatization by comparing the rate of return that an individual could get by investing in government bonds and the implied rate of return on his Social Security contributions—that comparison ignores the issue of meeting existing obligations.

Krugman believes that we have come far from the days when hard-working Americans could count on a reasonable degree of economic security. The social safety net created by Franklin Roosevelt and Lyndon Johnson is more important than ever. He strongly opposed privatization of Social Security and reduced benefits. He claimed the administration was slashing funds for government programs even as it gave big tax cuts to the rich, and that this attack on the safety net was motivated by ideology, not popular demand (5/13/05).

He has made a point that Social Security was not just a pension fund that compared unfavorably with private retirement plans; but for most of its existence, Social Security was basically unfunded—it didn’t invest the contributions workers paid in, it simply paid them out to retirees in a pay-as-you-go system. The reason it worked in its early years was “because the nation’s working population was steadily growing; so each generation, when it reached retirement age, could count on being supported by a much larger generation of workers” (5/31/00). However, the “baby boom was followed by baby bust. In the decades ahead, a huge number of retirees will need to be supported by a rather small number of workers. Pay-as-you-go would require either slashing benefits, sharply increasing required contributions, or both” (5/31/00).

He also said that officials have known that this was coming, and took some precautions by increasing required contributions to “greatly delay the date at which the system runs out of money.” Krugman acknowledged that the fund wasn’t big enough, but maintained that the reason for its low rate of return was not that the Social Security Administration was a lousy investor, but rather that today’s workers must over-contribute because previous generations of Americans didn’t put in enough to finance their own retirement. He claimed that it would be political suicide for a politician to acknowledge that the program is in imminent peril and that workers should invest their own money even though there would not be enough money to pay the benefits currently promised to Americans over 65. Instead, a politician would deceive the public by proposing that workers could invest a percentage of their contributions freely in the market, and later the government would be forced to cut benefits by a much higher percentage to keep the system actuarially sound (5/31/00). He blamed George W. Bush for pursuing this strategy.

He emphasized that by the time the benefit payments will start to exceed payroll tax receipts, the Social Security system will have accumulated a multitrillion-dollar trust fund, and like a private pension fund, it can use earnings from
this trust fund to pay benefits. But, he warned that the administration was trying to claim that these accumulated assets weren’t real, and didn’t count as resources available to pay future benefits because they were invested in government bonds (7/22/01; 7/25/01; 8/8/01). He considered this a deceptive way to make a case for privatization.

He argued that the government’s plan for privatizing Social Security depended on convincing the public that the system was in crisis. However, he added, in reality, the retirement program could be secured for generations to come, without major changes. He believed the shortfall of the Social Security program could be reversed by a modest fiscal package roughly equal to one-quarter of the revenue losses that resulted from the recent tax cuts (12/7/04; 11/5/00; 8/21/01; 4/2/02; 1/4/05; 1/11/05):

Privatizing Social Security—replacing the current system, in whole or in part, with personal investment accounts—won’t do anything to strengthen the system’s finances. If anything, it will make things worse. … There’s nothing strange or mysterious about how Social Security works: it’s just a government program supported by a dedicated tax on payroll earnings, just as highway maintenance is supported by a dedicated tax on gasoline. … Right now the revenues from the payroll tax exceed the amount paid out in benefits. This is deliberate, the result of a payroll tax increase—recommended by none other than Alan Greenspan—two decades ago. Still, there is a long-run financing problem.

But it’s a problem of modest size. The report finds that extending the life of the trust fund into the 22nd century, with no change in benefits, would require additional revenues equal to only 0.54 percent of GDP. That’s less than 3 percent of federal spending—less than we’re currently spending in Iraq. And it’s only about one-quarter of the revenue lost each year because of President Bush’s tax cuts … (12/7/04)

He claimed privatization of the Social Security would not work for two reasons: the first was related to the assumption that stocks earn much higher returns than the Social Security Administration, which invested only in government bonds; and the second was about not making any allowances for the fact that when funds would be diverted to private accounts, the program would still need to pay benefits to the current retirees.

About the rate of returns in stocks versus government bonds, he claimed that historically high returns in stocks came when stock prices were low compared with earnings, in other words, when they were underpriced. However, he
said, today’s stock prices were very high by conventional valuation methods, so
the expected returns of stocks in the future could not be as high as claimed by the
administration. Therefore, he argued, encouraging high levels of investment in
the stock market at the wrong time, when stock prices were high, sounded like a
recipe for disaster. The government’s reform plans would not work because they
relied on the assumption that high stock returns would allow the government to
scale back benefits without reducing actual retirement income (5/17/00; 5/28/00;
10/29/00; 1/21/05; 2/1/05; 2/4/05):

So people are expected to take a loan from the government and use
it to buy stocks, and if that turns out to have been a mistake—well, too bad.

Experts usually tell people to plan for their retirement by investing
in a mix of stocks and bonds. They disapprove strongly of specula-
ton on margin: borrowing to buy stocks. Yet Mr. Bush wants tens
of millions of Americans to do exactly that. (2/4/05)

To get a 6.5 percent rate of return, you need capital gains: if div-
idends yield 3 percent, stock prices have to rise 3.5 percent per
year after inflation. That doesn’t sound too unreasonable if you’re
thinking only a few years ahead.

But privatizers need that high rate of return for 75 years or more.
And the economic assumptions underlying most projections for
Social Security make that impossible. … The actuaries predict that
economic growth, which averaged 3.4 percent per year over the
last 75 years, will average only 1.9 percent over the next 75 years.
In the long run, profits grow at the same rate as the economy. So
to get that 6.5 percent rate of return, stock prices would have to
keep rising faster than profits, decade after decade. … [B]y 2050,
the price-earnings ratio would have to rise to about 70. By 2060, it
would have to be more than 100.

In other words, to believe in a privatization-friendly rate of return,
you have to believe that half a century from now, the average stock
will be priced like technology stocks at the height of the Inter-
net bubble—and that stock prices will nonetheless keep on rising.
(2/1/05)

He also warned that privatization dissipated a large fraction of contribu-
tions on fees to investment companies, and that privatization could be costly
Decades of conservative marketing have convinced Americans that government programs always create bloated bureaucracies, while the private sector is always lean and efficient. But when it comes to retirement security, the opposite is true. More than 99 percent of Social Security’s revenues go toward benefits, and less than 1 percent for overhead. In Chile’s system, management fees are around 20 times as high. And that’s a typical number for privatized systems. … In Britain, which has had a privatized system since the days of Margaret Thatcher, alarm over the large fees charged by some investment companies eventually led government regulators to impose a “charge cap.” Even so, fees continue to take a large bite out of British retirement savings. … If we introduce a system with British-level management fees, net returns to workers will be reduced by more than a quarter. Add in deep cuts in guaranteed benefits and a big increase in risk, and we’re looking at a “reform” that hurts everyone except the investment industry. (12/17/04)

His second point was that today’s workers were not only paying for their own retirement, but were supporting today’s retirees. So, if they were allowed to invest their contributions elsewhere, there would still be the question of how to meet existing obligations (5/28/00; 10/11/00; 8/26/01; 6/21/02). “Social Security is a social contract: each generation pays taxes that support the previous generation’s retirement, and expects to receive the same treatment from the next generation” (3/5/02).

After making his arguments against privatization of Social Security and how the administration’s calculations did not add up, Krugman argued that President Bush was not trying to modify, or even partially privatize Social Security, but to dismantle the program, and to undermine the legacy of Franklin Roosevelt. He claimed it was ideology to undermine the welfare state, Social Security, Medicare and Medicaid, social insurance programs whose purpose was to protect Americans against the extreme economic insecurity that prevailed before the New Deal (12/7/04; 2/8/05; 2/25/05; 5/2/05; 8/15/05):

For Social Security is a government program that works, a demonstration that a modest amount of taxing and spending can make people’s lives better and more secure. And that’s why the right wants to destroy it. (12/7/04)

… The important thing to remember is why the right wants priva-
The drive to create private accounts isn’t about finding a way to strengthen Social Security; it’s about finding a way to phase out a system that conservatives have always regarded as illegitimate. And as long as that is what’s at stake, there is no room for any genuine compromise. When it comes to privatization, just say no. (3/1/05)

Krugman then added that the real test of the conservative agenda came after the 2004 election, when President Bush tried to sell the partial privatization of Social Security. Even though there could not have been a more favorable moment for privatization of Social Security than the post-election conditions of winter 2004-2005, it ran into a solid wall of public opposition, and collapsed within a few months:

The argument over Social Security privatization isn’t about rival views on how to secure the program’s future—even the administration admits that private accounts would do nothing to help the system’s finances. It’s a debate about what kind of society America should be.

And it’s a debate Republicans appear to be losing, because the public doesn’t share their view that it’s a good idea to expose middle-class families, whose lives have become steadily riskier over the past few decades, to even more risk. As soon as voters started to realize that private accounts would replace traditional Social Security benefits, not add to them, support for privatization collapsed. (3/15/05)

Therefore, “the conservative dream of dismantling the welfare state is nothing but a fantasy” (4/21/06).

**The Health Care System:** *The US system is unique in its heavy reliance on the private sector, and is uniquely inefficient due to heavy medical bureaucracy.*

Krugman says Americans spend far more on health care yet do not receive more medical services and have lower life-expectancy and higher infant-mortality rates than in other developed countries. The problem is that much of private health care is devoted to a huge medical bureaucracy, which is mainly occupied in trying to get someone else to pay the bills (4/22/05). He recommended government provided universal health insurance (6/13/05). He cited asymmetric information and adverse selection among the reasons that a sizable portion of the health care expenses (about 15 percent of the money paid in premiums to private health insurance companies, compared to only 4 percent of the budgets of public
insurance programs; 4/22/05) go to bureaucratic tasks of screening patients and applicants for limiting coverage or rejecting the ones with pre-existing conditions or possible high future expenses.

He says competition does not work in the health insurance sector to make the private sector more efficient than the public sector. Private insurers generally compete, not by delivering care at lower cost, but on the basis of risk selection, that is by turning away people who were likely to have high medical bills. Yet the costs of providing medical care to those denied private insurance do not go away. If individuals are poor, or if medical expenses impoverish them, they are covered by Medicaid. Otherwise, they pay out of pocket or rely on the charity of public hospitals. Public insurance plans have far less bureaucracy because they don't try to screen out high-risk clients or charge them higher fees. In comparison, the private insurance system insures only 85 percent of the population, but costs much more than we would pay for a system that would cover everyone. He claimed private insurance companies spend less than 80 cents of each insurance-premium dollar on actually providing medical care, and the other 20 cents go into profits, marketing, and administrative expenses. Medicare manages to spend about 98 percent of its funds on actual medical care. Therefore, he was against private health insurance, and supported national coverage for all by government (4/15/05; 4/22/05; 4/29/05; 5/1/06; 6/13/05; 11/14/05).

He recommended as a successful model the Veterans Health Administration health care system, in which government pays the bills and runs the hospitals. The system, he says, has been highly efficient in containing costs while providing excellent care (1/27/06; 9/4/06), by virtue of its being a universal, integrated system. Since it covers all veterans, the system does not need to have high administrative costs to check patients' coverage and demand payment from their insurance companies. Because it covers all aspects of medical care, it has been able to take advantage of innovations that reduce costs, ensure effective treatment, and help prevent medical errors. Moreover, the longtime relationship with its patients provides the incentive for preventive care; and it also bargains with medical suppliers and pays far less for drugs than most private insurers. Krugman says the reason we don't hear about this success story is that it “runs completely counter to the pro-privatization, anti-government conventional wisdom that dominates today's Washington” (1/27/06).

He called the Veterans Health Administration “a stunning success,” and blamed an ideological administration for refusing to build on that success:

Some still think of the VA as a decrepit institution, which it was in the Reagan and Bush I years. But thanks to reforms begun under Bill Clinton, it's now providing remarkably high-quality health care at remarkably low cost.
The key to the VA’s success is its long-term relationship with its clients: veterans, once in the VA system, normally stay in it for life. This means that the V.A. can easily keep track of a patient’s medical history, allowing it to make much better use of information technology than other health care providers. Unlike all but a few doctors in the private sector, VA doctors have instant access to patients’ medical records via a systemwide network, which reduces both costs and medical errors.

The long-term relationship with patients also lets the VA save money by investing heavily in preventive medicine, an area in which the private sector—which makes money by treating the sick, not by keeping people healthy—has shown little interest.

The result is a system that achieves higher customer satisfaction than the private sector, higher quality of care by a number of measures and lower mortality rates—at much lower cost per patient. Not surprisingly, hundreds of thousands of veterans have switched from private physicians to the VA … [T]he Bush administration has restricted access to the VA system, limiting it to poor vets or those with service-related injuries. … [T]hey won’t let vets on Medicare buy into the VA system, not because they believe this policy initiative would fail, but because they’re afraid it would succeed. … [T]hey’re afraid that allowing a successful government program to expand would undermine their antigovernment crusade and displease powerful business lobbies. (9/4/06)

He says medical progress may force us to have more government involvement, which would also mean higher taxes:

[I]f we don’t want to become a society in which the rich get lifesaving medical treatment and the rest of us don’t, we’ll have to pay much higher taxes. The vast waste in our current system means, however, that effective reform could both improve quality and cut costs, postponing the day of reckoning. To get effective reform, however, we’ll need to shed some preconceptions—in particular, the ideologically driven belief that government is always the problem and market competition is always the solution. (4/11/05)

He explained that private health insurance in America comes almost entirely in the form of employment-based coverage as part of the pay package, which isn’t taxed. So, the semi-private system has already been supported by large gov-
ernment subsidies. Krugman argued that this system is now failing because the stable corporate order is disappearing, and suggested government should provide economic security through the front door, instead of the way it has been doing through the back door, via tax breaks designed to encourage corporations to provide health care and pensions (11/14/05; 11/28/05). He claimed that “a rigid belief that markets are always superior to government programs—a belief that ignores basic economics as well as experience—stands in the way of rational thinking about what should replace it” (11/14/05).

Krugman suggested we need smart, bold, populist politicians who would propose a universal health care system:

The most crucial benefit, employment-based health insurance, has been in rapid decline since 2000. The important question now, however, is whether we’re finally going to try to do something about the big disconnect. Wages may be difficult to raise, but we won’t know until we try. And as for declining benefits—well, every other advanced country manages to provide everyone with health insurance, while spending less on health care than we do. The big disconnect, in other words, provides as good an argument as you could possibly want for a smart, bold populism. All we need now are some smart, bold populist politicians. (9/1/06)

Because of asymmetric information (11/14/05; 7/26/00; 9/22/06), health care calls for direct government provision of the service:

I’m not an opponent of markets. On the contrary, I’ve spent a lot of my career defending their virtues. But the fact is that the free market doesn’t work for health insurance, and never did. All we ever had was a patchwork, semiprivate system supported by large government subsidies.

That system is now failing. And a rigid belief that markets are always superior to government programs—a belief that ignores basic economics as well as experience—stands in the way of rational thinking about what should replace it. (11/14/05)

Because everyone faces some risk of incurring huge medical costs, only the superrich can afford to be without health insurance. Yet private insurers try to refuse coverage to those most likely to need it, and deny payment whenever they can get away with it. The point isn’t that they’re evil or greedy … The fact is that cruelty and injustice are the inevitable result of the current rules of the
game. Blue Shield of California is a nonprofit insurance provider, yet as a spokesman put it, if his organization doesn’t follow the for-profit practice of selectively covering only the healthiest people, “we will end up with all the high-risk people.”… Medicare, which is a universal health insurance program for older Americans, spends less than 2 cents of every dollar on administrative costs, leaving 98 cents to pay for medical care. By contrast, private insurance companies spend only around 80 cents of each dollar in premiums on medical care; much of the remaining 20 cents is spent denying insurance to those who need it.

If we had a universal system—Medicare for everyone—there would be no more horror stories like those reported by The Los Angeles Times. And we’d almost certainly spend less on health care than we do now. (9/22/06)

As a practical matter the only way to avoid this opt-out problem, to enforce the kind of till-death-do-us-part commitment needed to make drug insurance work, is to make the coverage part of a government program.

All of this is more or less textbook economics. So why are Republican leaders insisting on a plan that almost nobody familiar with the issue thinks will work?

Cynical politics no doubt plays an important role. So does money; the insurance industry is by and large against the Republican plan, but the pharmaceutical industry is very anxious to avoid anything that might push down drug prices, and fears that the administration plan will do just that. But sincere fanaticism also enters the picture. Republican leaders in the House, in particular, are true believers in the miraculous powers of the free market—they are in effect members of a sect that believes that markets will work even when the businessmen actually involved say they won’t, and that government involvement is evil even where conventional analysis says it is necessary. (7/26/2000)

Krugman also argued that “our dysfunctional medical system is bad not just for our health, but for our economy,” and suggested that a national universal health care system would also contribute economically to the global competitiveness of our business (8/27/04; 7/25/05).

On the Medicare drug benefit program, he claimed that the public over-
whelmingly supports the extension of Medicare to include prescription drugs, and suggested that the best solution would be to make drug coverage part of a government program since this would save a lot of money for the government, both by eliminating the cost of employing private insurance companies as middlemen and by allowing the government to negotiate lower drug prices. He faulted the Bush administration for not admitting that there is a conflict between their promises to retirees and their small-government ideology and hostility to Medicare (7/26/00; 3/19/02; 11/14/03; 11/11/05; 5/15/06). He criticized the Medicare drug benefit as an example of “gratuitous privatization on a grand scale” and argued that private corporations have no useful role to play in the delivery of public services in health care. The theory that the private sector would find innovative ways to lower costs while providing better care is wrong. Private health plans add an unnecessary layer of middlemen; the fragmented structure prevents Medicare from using bulk purchasing to reduce drug prices; and the private system ends up costing the system money, not saving it (5/6/05; 11/18/05; 1/20/06; 5/1/06; 5/15/06; 9/4/06; 9/22/06).

Krugman blamed the administration’s ideology and partisanship for the failures in the drug benefit program:

Part D’s bad start isn’t just another illustration of the administration’s trademark incompetence. It’s also an object lesson in what happens when the government is run by people who aren’t interested in the business of governing. … There’s a number that people needing help with Part D can call. But when the program first went into effect, there were only 300 customer service representatives standing by. (Remember, there are 43 million Medicare recipients.)

There are now 7,500 representatives, making it easier to reach someone. But should you believe what you’re told? Maybe not. A survey by the Government Accountability Office found that when Medicare recipients asked for help … they were given the right answer only 41 percent of the time.

Clearly, nobody in the Bush administration took responsibility for making Part D’s start-up work. But then you can say the same thing about the whole program. …

But while a straightforward addition of drug coverage to Medicare would have been good policy, it would have been bad politics from the point of view of conservatives, who want to privatize traditional social insurance programs, not make them better. (5/15/06)
On obesity, he claimed that fighting it today is more difficult than fighting smoking in the 1960s, because the ideological landscape has changed and the public is predisposed to believe that the market is always right. He emphasized that in some situations, such as obesity among children and adolescents, or when adults have clear problems with self-control and behaving irrationally, the “free to choose” assumption does not work. “[W]e need to put aside our anti-government prejudices and realize that the history of government interventions on behalf of public health, from the construction of sewer systems to the campaign against smoking, is one of consistent, life-enhancing success” (7/8/05). He supported state-level bills to require schools to serve healthier lunches, remove vending machines selling sweets and soda, and so on (7/4/05).

**Government’s Role in Emergency Management:** *Katrina is another deadly lesson in the ideological subversion of government.*

After the Hurricane Katrina that hit the Gulf Coast region in August 2005, Krugman argued it was government’s job to reconstruct the region, not just because only the government can provide flood protection and basic infrastructure, but because only government can provide a credible reconstruction plan that would reduce uncertainty and induce businesses and families to go back to the region (12/9/05).

He blamed the administration for not doing their jobs, from ideological hostility to the idea of using government to serve the public good, and claimed that President Bush had been forced by events into short-term actions that conflict with his long-term goals:

[A]ction after Katrina was anything but prompt. … But the federal government’s lethal ineptitude wasn’t just a consequence of Mr. Bush’s personal inadequacy; it was a consequence of ideological hostility to the very idea of using government to serve the public good. For 25 years the right has been denigrating the public sector, telling us that government is always the problem, not the solution. Why should we be surprised that when we needed a government solution, it wasn’t forthcoming? … Ideological cynicism about government easily morphs into a readiness to treat government spending as a way to reward your friends. After all, if you don’t believe government can do any good, why not? … Now we have another deadly lesson in why we need an effective government, and why dedicated public servants deserve our respect. (9/5/05)

His mission in office is to dismantle or at least shrink the federal social safety net, yet he must, as a matter of political neces-
sity, provide aid to Katrina’s victims. His problem is how to do that without legitimizing the very role of government he opposes. ... Mr. Bush can’t avoid helping Katrina’s victims, but he doesn’t want to legitimize institutions that help the needy, like the housing voucher program. As a result, his administration refuses to use those institutions, even when they are the best way to provide victims with aid. More generally, the administration is trying to treat Katrina’s victims as harshly as the political realities allow, so as not to create a precedent for other aid efforts. (10/3/05; same topic also in 10/10/05)

[As the Iraqis learned, allocating money and actually using it for reconstruction are two different things, and so far the administration has done almost nothing to make good on last year’s promises. … Apologists for the administration will doubtless claim that blame for the lack of progress rests not with Mr. Bush, but with the inherent inefficiency of government bureaucracies. That’s the great thing about being an antigovernment conservative: even when you fail at the task of governing, you can claim vindication for your ideology. But bureaucracies don’t have to be this inefficient. The failure to get moving on reconstruction reflects lack of leadership at the top. … How many people can even name the supposed reconstruction “czar”?]

Mr. Bush could have tried to fix FEMA, the agency whose effectiveness he destroyed through cronyism and privatization. But he didn’t. (8/28/06)

But what we really should be asking is whether FEMA’s decline and fall is unique, or part of a larger pattern. What other government functions have been crippled by politicization, cronyism and/or the departure of experienced professionals? How many FEMA’s are there? (9/12/05)

Krugman also blamed the administration for trying to leave airport security in the hands of private companies after September 11, and destroying the effectiveness of Federal Emergency Management Agency (9/5/05; 9/12/05; 8/28/06).

While he argued that the reconstruction of the Gulf Coast will be deeply marred by cronyism and corruption, he compared the current administration to the Franklin D. Roosevelt’s, which he said had shown that government activism
worked:

The New Deal made almost a fetish out of policing its own programs against potential corruption. This commitment to honest government wasn’t a sign of Roosevelt’s personal virtue; it reflected a political imperative. … Turning the funds over to state and local governments isn’t the answer, either. FDR actually made a point of taking control away from local politicians; then as now, patronage played a big role in local politics. (9/16/05)

**Accountability in Government and Business:** *Capitalism as we know it depends on a set of institutions—many of them provided by the government—that limit the potential for insider abuse.*

Krugman wrote a series of columns, particularly after the Enron scandal, dedicated to pointing out corruption and cronyism in the administration and demanding accountability. He also asked for reform of corporate governance regulation, because he claimed capitalism depends on a set of institutions, many of them provided by the government. Investors must be confident that reported profits are real and that executives and insiders will not abuse their positions. Consequently, we need modern accounting rules, independent auditors, securities and financial market regulation, and prohibitions on insider trading (1/18/02; 1/29/02; 6/4/02; 8/13/02; 10/11/02; 8/21/06; 10/20/06; 12/11/06).

He claimed the corporate crisis was not just about the specific details of tricky accounting, stock options, and loans to executives, but about the way the system was corrupted by insiders, and accused the Bush administration of being full of such insiders: “Years of unchecked crony capitalism will have destroyed faith in our financial markets” (11/8/02). He criticized the administration for not pushing for corporate reform and actually opposing reforms that would reduce the incentives for corporate scams, such as requiring companies to count executive stock options against profits, and reforms that would make it harder to carry out such scams, such as not allowing accountants to take consulting fees from the firms they audit (7/12/02).

Krugman accused the Bush administration of appointing ineffectual candidates to key positions to please campaign contributors. “[O]rdinary investors demanded a crackdown on corporate malfeasance,” but the administration’s response was to put incompetent people in charge:

This principle explains a lot. For example, the Treasury secretary’s job is to pursue sound fiscal and economic policies. So if you don’t want that job done, you appoint a prominent manufacturing executive with little understanding either of federal budgets or of macroeconomics. He’ll be just the man to preside over a lightning-fast
transition from record budget surpluses to huge deficits. (11/1/02)

Krugman suggested stricter accounting rules to ensure transparency and disclosure, and accused the Republicans of preventing any meaningful accounting reform:

Honesty in corporate accounting isn’t a left-right issue; it’s about protecting all investors from exploitation by insiders. By blocking reform of a broken system, the Bush administration is favoring the interests of a tiny corporate oligarchy over those of everyone else. ... This isn’t just a question of treating American investors fairly. Like the Asian nations before their crisis, the United States relies heavily on inflows of foreign capital, inflows that depend on international faith in the integrity of US markets. (5/21/02)

Furthermore, he cautioned against the risk of the United States becoming a one-party state as power is polarized, and corporate cash, once split more or less evenly between the parties, increasingly flows in only one direction. He argued corporations themselves are also increasingly part of the party machine and they are rewarded with policies that increase their profits: deregulation, privatization, and elimination of environmental rules (6/27/03).

**Deregulation:** *Markets may not be the solution if there is a natural monopoly, as in the case of electricity.*

Krugman used California electricity “deregulation” to illustrate the possible failures of freer markets. Market power might create shortages and price manipulations.

He claimed that, prior to deregulation in California, monopolistic power companies were guaranteed a good profit even if their industry had excess capacity. So they built more capacity than they needed. But in the deregulated market, where prices fluctuate constantly, companies knew that if they over-invested, prices and profits would plunge. So they were reluctant to build new plants; and the resulting limitations in supply, accompanied by unexpectedly high demand, created shortages and price increases. Textbook economics suggests price increases give the power companies an incentive to invest and consumer an incentive to conserve. But to eliminate the shortages in California, retail electricity prices would have to rise enormously and that would be politically unacceptable (2/18/01). He added that the electricity market was not competitive, and recommended, “Don’t rush into a market solution when there are serious questions about whether the market will work” (12/10/00). Krugman wrote:

The generators didn’t have to conspire: the logic of the situation
made it easy, almost irresistible, for each individual company to manipulate the market. In fact, to believe that the generators didn’t engage in market manipulation, you have to believe that they are either saints or very bad businessmen, because they would have been passing up an obvious opportunity to increase their profits. (3/25/01)

Now the truth is that California’s deregulation probably was flawed, but the flaw was in trusting markets too much, not too little. As Mr. Wolak points out, California’s system differed from other deregulations mainly in offering remarkably few safeguards against market manipulation. And the state paid an enormous price for its gullibility. (2/26/02)

He criticized electricity deregulation in California for not taking the measures against increased demand when the supply was limited, and suggested re-regulation so that the gains from extra demand would not go to a few power companies. He claimed power-generating companies had a clear incentive to produce less than their capacity and drive up the prices. A wholesale price cap might increase supplies, because it would remove the incentive to withhold electricity to manipulate its price (12/31/00; 1/7/01; 1/24/01; 3/25/01; 4/15/01; 6/3/01):

One indication of how badly deregulation has misfired is this: while the error of the tech sector—overestimating the demand for its services—was severely punished, the error of the California power companies—underestimating the demand for their product—has been richly rewarded. You don’t have to be a raving populist to think that there is something wrong with that, and you don’t have to be a conspiracy theorist to wonder whether there are some perverse incentives when an industry dominated by a few large players finds it hugely profitable not to invest. ... [L]et me just point out that deregulation, too, was based on the belief that we had transcended the old limitations—in the age of the Internet we no longer had to worry about the generation and transmission bottlenecks that had always prevented a workable free market in electricity, that had made regulation necessary to prevent abuses of market power. Now California has learned to its cost—$8 billion and counting—that those old limitations still apply. (12/31/00)

While Krugman admitted that re-regulation would be somewhat inefficient, he argued it would be much fairer. He acknowledged it would also require federal involvement, because if there would be price caps in California, the power would go to other states that have shortages (1/7/01; 3/25/01; 4/15/01).
Krugman then pointed to the report of the Federal Energy Regulatory Commission, completed in 2003, which concluded that market manipulation was pervasive in California during the electricity crises; and he mentioned it as direct evidence that California’s power shortages were largely artificial, created by energy companies to drive up prices and profits, and that the key factors that ended the crisis included energy conservation and price controls (3/28/03).

In a similar case in the blackout of 2003 that affected many states in the North East, including New York, he blamed deregulation because the transmission network had been neglected. He repeated that deregulation is not the best solution for the power industry, since electric power is a natural monopoly, and it is impractical to have companies competing either to wire up homes and businesses, or to build long-distance transmission lines. Since effective competition was impossible, he asserted, the best solution would be to give power companies local monopolies, and regulate them to keep them from exploiting customers. He also claimed that, market manipulation aside, deregulation leads to neglect of the grid, because power companies would not have any incentives to ensure the integrity of power transmission (8/19/03).

**Telecommunications and Media Ownership:** Ownership and control may call for restrictions.

Krugman supported common-carrier and other requirements on the broadband industry:

The Telecommunications Act of 1996 was supposed to create a highly competitive broadband industry. But it was a botched job; the promised competition never materialized.

Last March the FCC used linguistic trickery—defining cable Internet access as an “information service” rather than as telecommunications—to exempt cable companies from the requirement to act as common carriers. The commission will probably make a similar ruling on DSL service …. The result will be a system in which most families and businesses will have no more choice about how to reach cyberspace than a typical 19th-century farmer had about which railroad would carry his grain.

We could have restored competition by breaking up the broadband industry, restricting local phone and cable companies to the business of selling space on their lines to independent Internet service providers. … But right now we seem to be heading for a system without either effective competition or regulation. Worse yet, the FCC has been steadily lifting restrictions on cross-
ownership of media and communications companies. The day when a single conglomerate could own your local newspaper, several of your local TV channels, your cable company and your phone company—and offer your only route to the Internet—may not be far off.

The result of all this will probably be exorbitant access charges, but that’s the least of it. Broadband providers that face neither effective competition nor regulation may well make it difficult for their customers to get access to sites outside their proprietary domain—ending the Internet as we know it. And there’s a political dimension too. What happens when a few media conglomerates control not only what you can watch, but what you can download? (12/6/02)

When writing about the merger of AOL and Time Warner, he suggested the federal government should police mergers to make sure they are good, not bad, for the economy as a whole. He believed there should be restrictions on mergers by regulators:

These restrictions mean that AOL Time Warner’s future profits will depend on whether it really is able to deliver the promised synergies; being big won’t be its own reward. ... If a merger is about enhancing market power, it should either be blocked or subjected to restrictions that turn it into something more benign. The price of good mergers is eternal vigilance. (1/14/01)

The “New Economy” and the Microsoft’s Monopoly Case: How do you deal with a monopoly when it would exist even in the absence of foul play?

One of the few areas in which Krugman came out against government intervention was high-tech monopolies, because he claimed these monopolies were temporary as new inventions would continuously take over. He stated that the big difference between the new economy and the old was the changed nature of investment. In the past, businesses primarily invested in the tangible means of production, things like buildings and machines that were directly related to the value of a company, and grew with the size of the sales. But, high-tech businesses investment is mainly in intangibles, and one consequence for the markets is to develop into temporary monopolies, because, when how much you sell doesn’t much depend on how big your investment is, a bigger market share is better. Krugman asserted that they are temporary, because sooner or later new technologies supersede the old investment. Nonetheless, the hope of achieving such monopolies was the main driver of investment. Krugman argued that the
inevitability of monopolies in a knowledge economy created new puzzles for antitrust policy, and the Microsoft case was one example that posed real dilemmas (10/22/00).

He said the Microsoft case was difficult, because it was not easy to deal with a monopoly when it would exist even in the absence of foul play (7/1/01). Network externalities, the incentives to use the same system that everyone else uses, gave one company a monopoly in the operating-system market. However much we may dislike the monopolist, an attempt to break up monopolies like Microsoft was likely to do more harm than good:

[T]he fact that everyone uses PowerPoint, like the fact that so many people speak English, is in itself a social good. ... [L]ife would be more difficult for millions of computer users if there weren’t a number of useful applications that came as standard features with the operating system. (11/4/01)

Krugman criticized invocations about technological innovation:

In the case of the Microsoft decision, textbook economics says that a breakup of the kind now ordered, aside from disrupting the firm itself, will actually exacerbate the problem of monopoly power, raising prices and increasing market distortions. But Justice has argued that these conventional costs are outweighed by what it expects to be increased incentives to innovate. … The truth is that we don’t know very much about what promotes innovation. Because the determinants of innovation are not well understood, clever advocates can invoke technological progress as an all-purpose justification for whatever policy they favor. (6/11/00)

He suggested that a seeming pro-innovation proposal may actually cost taxpayers billions or raise prices to consumers. He believed the regulators should leave high-tech company mergers alone:

It’s a brave new world that has such mergers in it; and we should give that new world a chance to evolve before we start to place it under too many old-economy strictures. (7/12/00)

Globalization and Free Trade: They should be supported, particularly because they improve economic and political conditions abroad.

Through 2006, Krugman was a strong supporter of free trade and globalization. He believes free trade helps to pave the way for democracy. When a nation opens up to the world, its businesses become less dependent on government
favors. Free trade reduces corruption. But a viable global economy needs political foundations. Ordinary people need to be persuaded. The following selections show Krugman’s liberal voice on free trade, circa 2000.

Deng Xiaoping didn’t decide to liberalize China’s economy because he was a nice guy, or a secret admirer of Adam Smith; he looked at Taiwan and South Korea and realized that their export-led, market-driven growth was delivering something Maoism never could. And post-Deng China—for all its ham-handed repression—has become a far freer, more open society than anyone could have imagined 25 years ago, mainly because all-out totalitarianism and a market economy don’t mix. You don’t have to be a disciple of Friedrich Hayek to believe that free markets and a free society have some affinity, and that the world has become more democratic over the last two decades partly because it has also become more market-oriented.

So think what a rejection of normal trading relations with China would in effect say to governments—China’s government and others—that are still wavering in their commitment to freer economies and their willingness to accept the loss of political control that such economic liberalization usually brings. It would be as if the United States, the home of the free-market/free-society ideology, were to say “Sorry; markets and democracy work for us, but we aren’t letting any more countries into our club.” (5/10/00)

This week the Swiss ski resort of Davos … will play host once again to the annual meeting of the World Economic Forum—a unique gathering of the world’s business and political elite. … As it happens, I am one of those who believe that globalization is overwhelmingly, though not entirely, a good thing. So the instinctive negative reaction that even someone like me feels toward “Davos Man” (a phrase coined by the political scientist Samuel Huntington) suggests just how serious a public relations problem now faces the global economy in which Davos Man flourishes.

The reality is that globalization makes the world a richer place, but the wealth it creates goes disproportionately to two sorts of people. On one side are those who benefit from vastly improved access to technology and capital—which is to say, workers in developing countries. On the other are those in advanced countries who, directly or indirectly, have technology and capital to sell—which
means the rich and the highly educated. Largely left out of the party, possibly even made worse off, are those who fall into neither category. …

It is, to be honest, a picture that contains some shadows. Still, if you ask about the overall effect on the human condition, globalization has been a huge force for good. … [G]lobalization, driven not by human goodness but by the profit motive, has done far more good for far more people than all the foreign aid and soft loans ever provided by well-intentioned governments and international agencies. (1/23/00)

Try looking at some of the literature of the anti-globalists … Again and again you see the less attractive features of the modern world contrasted with an imagined pre-globalization Arcadia of happy villagers living in harmony with nature. Then try checking some of the facts about life before the export boom. Never mind GDP; we’re talking basic nutrition and health. What you will discover is that life in that pre-globalization society was nasty, brutish and short; for example, in 1975 only one rural Thai in six had access to safe drinking water. Today it’s four out of five.

No wonder, then, that many third-world leaders are contemptuous of their self-proclaimed Western friends who, in the words of Mexico’s president, Ernesto Zedillo, are “determined to save developing countries from development.”

Of course, those developing countries have their own gripes about the world trading system. Mainly these involve their desire for more, not less, international trade: they are rightly angry that rich countries that proclaim the virtues of free trade place so many obstacles in the way of their potential exports. And they also want more of a say in the decisions of the WTO—largely because they are afraid that it will give in to the demands of the Seattle types, imposing labor and environmental standards that they cannot afford.

What they don’t want is affluent Westerners telling them—strangely, at the very moment that some developing countries are finally starting to acquire a bit of real economic power—what a terrible thing the modern world is. (2/16/00)

Because the countries are poor, even what look to us like bad jobs
at bad wages are almost always much better than the alternatives: millions of Mexicans are migrating to the north of the country to take the low-wage export jobs that outrage opponents of Nafta. And those jobs wouldn’t exist if the wages were much higher: the same factors that make poor countries poor—low productivity, bad infrastructure, general social disorganization—mean that such countries can compete on world markets only if they pay wages much lower than those paid in the West. (4/22/01)

We are now living in the era of the Second Global Economy—a world economy reconstructed, largely under American leadership, over the past half century. It took a long time to put Humpty Dumpty back together again: the share of world output entering into trade didn’t reach its pre-1914 levels until the 1970’s, and large-scale investment in “emerging markets” … has revived only in the last decade. But this time the economic achievement is built on stronger foundations … but maybe not strong enough. True, we have gotten better at making the distinction between commerce and conquest … But now as then the global idea is very much a minority persuasion, all too easily portrayed as an ideology of and for a rootless cosmopolitan elite that is out of touch with ordinary people.

For that, surely, is the lesson of the trashing of the World Trade Organization meeting in Seattle last November. Not that the protesters were right: it is a sad irony that the cause that has finally awakened the long-dormant American left is that of—yes!—denying opportunity to third-world workers. But though the facts may be on the side of the free traders, though global trade really ought to have mass public support, one can hardly deny that the opponents are winning the propaganda war. For the moment, as long as it seems to deliver the goods and services, globalization is tolerated; but it is not loved. (1/2/2000)

Krugman criticized President Bush’s decision to impose high tariffs on imported steel as protectionist policy (3/8/02; 5/24/02; 6/11/02). Import restrictions are the wrong way to deal with domestic problems, especially since they impose a lot of collateral damage, not just in economy, but also in diplomacy (5/24/02; 10/7/03).

Let’s be clear: Many Democrats were on the wrong side of the steel
issue. But it was up to Mr. Bush to show leadership, to demonstrate that he really cares about the principles he espouses. (3/8/02)

Krugman argued for the necessity of trade agreements:

[I]f we didn’t have trade agreements, protectionism would usually win. Consumers don’t realize that they are hurt by steel tariffs or sugar quotas, but the steel and sugar industries know exactly what they’re getting.

The reason we manage to have fairly free trade is that the world—under US leadership—has evolved a system that pits the self-interest of exporters against the power of industries that would prefer not to compete with imports. Each country agrees to accept the exports of other countries in return for access to their markets. In the language of trade negotiations, the parties to such an agreement make “concessions”; but the real purpose of those concessions is to protect ourselves from our own bad instincts.

… Trade agreements do include “safeguards,” special circumstances under which temporary tariffs are permitted; but the conditions under which you can do that are fairly restrictive.

And the steel industry clearly didn’t meet those conditions. (5/24/02)

[Just about every protectionist step taken by the Bush administration has been clearly in violation of international trade law. And if the major economic powers stop honoring the rules that preserve open global markets, the chances of future development in poor nations will be much reduced. (11/28/03)

Later, he notes that the critics of globalization have some valid points, but he still sides with free trade:

First and foremost, the promise of export-led growth has failed in too many places. In particular, Latin America has signally failed to replicate Asia’s success: Latin nations have liberalized, privatized and deregulated, with results ranging from disappointing (Mexico) to catastrophic (Argentina). Open world markets, it seems, offer the possibility of economic development—but not an easy, universal recipe.
Meanwhile, competition from newly industrializing economies does hurt some workers in advanced countries. I could tell you how sensible government policies could minimize this cost, but since we don’t have those policies and aren’t about to get them, free trade is, in reality, a morally ambiguous issue. And someone in my situation has to acknowledge being in a particularly weak moral position, since they aren’t yet having newspaper columns written in Bangalore.

Yet I keep coming back to the big good news of the past 25 years: in a world with more or less free trade, development is possible. We are not, it turns out, condemned to live forever on a planet where only a small minority of the global population has a decent standard of living. (11/28/03)

For global companies to compete effectively by operating freely on both sides of the Atlantic, Krugman recommended relaxation of antitrust regulations in both the United States and Europe (6/24/01).

Krugman argued that, “[s]ocial justice aside,” it would be a lot easier to make the case for free trade and free markets in general if the government provides a strong domestic social safety net (2/27/04). He also argued it is among government’s responsibilities to take effective job creation and income security measures against global competition that changes the composition of jobs. Otherwise, protectionist pressures would become irresistible:

[Although old fallacies about international trade have been making a comeback lately (yes, Senator Charles Schumer, that means you), it is as true as ever that the US economy would be poorer and less productive if we turned our back on world markets. Furthermore, if the United States were to turn protectionist, other countries would follow. The result would be a less hopeful, more dangerous world.

Yet it’s bad economics to pretend that free trade is good for everyone, all the time. “Trade often produces losers as well as winners,” declares the best-selling textbook in international economics (by Maurice Obstfeld and yours truly). The accelerated pace of globalization means more losers as well as more winners; workers’ fears that they will lose their jobs to Chinese factories and Indian call centers aren’t irrational.
Addressing those fears isn’t protectionist. On the contrary, it’s an essential part of any realistic political strategy in support of world trade. That’s why the Nelson Report, a strongly free-trade newsletter on international affairs, recently had kind words for John Kerry. It suggested that he is basically a free trader who understands that “without some kind of political safety valve, Congress may yet be stampeded into protectionism, which benefits no one. … We need more jobs. U.S. employment is at least four million short of where it should be. Imports and outsourcing didn’t cause that shortfall, but if the job gap doesn’t start closing soon, protectionist pressures will become irresistible. …

And in the longer run, we need universal health insurance. Social justice aside, it would be a lot easier to make the case for free trade and free markets in general if, like every other major advanced country, we had a system in which workers kept their health coverage even when they happened to lose their jobs.

The point is that free trade is politically viable only if it’s backed by effective job creation measures and a strong domestic social safety net. And that suggests that free traders should be more worried by the prospect that the policies of the current administration will continue than by the possibility of a Democratic replacement.

Put it this way: there’s a reason why the two US presidents who did the most to promote growth in world trade were Franklin Roosevelt and Harry Truman, while the two most protectionist presidents of the last 70 years have been Ronald Reagan and, yes, George W. Bush. (2/27/04)

What if neither education nor health care reform is enough to end the wage squeeze? That’s the possibility that makes free-trade liberals like me very nervous, because at that point protectionism enters the picture. When corporate executives say that they have to cut wages to meet foreign competition, workers have every right to ask why we don’t cut the foreign competition instead. (10/17/05)

**Immigration:** We need to reduce the inflow of low-skill immigrants. (Here our review reiterates much of the discussion contained in the main paper.) In his earlier columns Krugman wrote in favor of immigration:

America is in the midst of a technological revolution—unlike Japan, which in 1990 was at the end, not the beginning, of a produc-
tivity surge. And demography is on our side: a steadily growing work force, thanks in part to immigration, should help to sustain continuing high investment. (4/16/00)

[A] surprising number of the letters I received … insisted, vehemently, that the real culprit behind urban sprawl was population growth, and that therefore it was all because of immigration. … On casual observation I would say that the anti-immigration movement today is where the anti-globalization movement was a couple of years before Seattle: not yet large enough to be a political force to be reckoned with, but quite possibly on its way to achieving critical mass. …

Like so much of what the anti-globalization activists say, these complaints are mostly but not entirely off base. The grain of truth in the argument is that other things being the same, a growing population means more houses, more cars and hence more sprawl. … And since some of the faces behind the wheel or the fake Palladian window are brown, it’s all too natural to blame them for the trend.

Obviously I don’t feel the same way; I am one of those people who feel that immigration is a good thing—most of all for the immigrants, but good for America too. To some extent this position rests on mundane economic arguments. Foreign-born talent has been crucial in this country’s technology boom, and plays a large role in many less glamorous industries too. … And one can make a good case that demography—the perils of a low birth rate—is a key factor in the economic malaise of Japan and some European countries; America’s openness to immigration is one of the things protecting us from that fate.

And I have my own cultural prejudices. Isn’t the immigrant experience part of what this country is all about? Without immigrant families climbing the social ladder, what would become of the American dream? (5/23/01)

Later he became more negative about low-skilled workers. They suppress the wages of low-skilled U.S. workers, and they draw on benefits provided by our welfare state (3/27/06). He wrote: “Countries with high immigration tend, other things equal, to have less generous welfare states than those with low immigration. US cities with ethnically diverse populations—often the result of immigra-
tion—tend to have worse public services than those with more homogeneous populations” (3/31/06).

Krugman criticized a guest worker program because it was designed by and for corporate interests, who’d love to have a low-wage work force that couldn’t vote. Not only is it deeply un-American; it does nothing to reduce the adverse effect of immigration on wages. And because guest workers would face the prospect of deportation after a few years, they would have no incentive to become integrated into our society. (3/27/06)

However, he was also cautious about a guest-worker program that includes a clearer route to citizenship. He wrote: “Whatever the bill’s intentions, it could all too easily end up having the same effect as the Bush plan in practice—that is, it could create a permanent underclass of disenfranchised workers”—presumably he was thinking that promises of citizenship might not be fulfilled. He expressed concerns about the political implications of a large nonvoting work force, and argued it would be a betrayal of our democratic ideals, of government of the people, by the people. He said institutionalizing a disenfranchised work force as proposed by the Senate Judiciary Committee would be a big step away from democracy. He added that a political system in which many workers don’t count would likely ignore workers’ interests: “it’s likely to have a weak social safety net and to spend too little on services like health care and education” (3/31/06).

In short, Krugman preferred a no-solution outcome to the others that might have brought low-skilled workers: “We need to do something about immigration, and soon. But I’d rather see Congress fail to agree on anything this year than have it rush into ill-considered legislation that betrays our moral and democratic principles” (3/27/06).

Although he claimed to be “instinctively, emotionally pro-immigration,” since his own grandparents were immigrants from Russia, he argued that the net benefits to the U.S. economy from immigration were almost negligibly small. “Realistically, we’ll need to reduce the inflow of low-skill immigrants” (3/27/06). The only immigrants he favored were “High-skilled immigrants—say, software engineers from South Asia …” (3/31/06).

The Next Global Financial Crisis: We all sleep better knowing that the Federal Reserve Chairman has the power and resources to help fight whatever crises may arise.

Krugman believed that when the next global financial crisis breaks out, we will need the International Monetary Fund to provide stability. The notion that the IMF creates a moral hazard problem is overstated. Restricting the IMF functions would make the world a more dangerous place. He does support intervention at times of turbulence by a governmental or supranational organization in the global financial markets, as a guardian-like protector. “[W]e all sleep better knowing that Alan Greenspan has the power and resources to help fight whatever crises may arise,” and the IMF fulfills the same role as the Federal Reserve in
the U.S., as a lender of last resort in international financial markets (5/15/98):

Even if financial markets do continue to tumble, Alan Greenspan and his counterparts in other advanced countries have the tools they need to prevent paper losses from turning into a slump in real output. Mr. Greenspan turned a stock market crash into a real-economy non-event in 1987; he can do it again. (8/30/98)

He further argued:

[T]he International Monetary Fund is all that we have, and it is a lot better than nothing at all. To hobble the IMF in the belief that world financial markets will take care of themselves is to gamble the stability of those markets on a speculative theory—a theory that even most of the theorists think is refuted by the lessons of history. (5/15/98)

Krugman believes that when “experienced, open-minded” officials are in charge of the world’s major financial institutions, they can get us through financial crises (11/22/00). He recognized, however, that it usually is not easy to find such exceptional individuals; and, in nominating and confirming such individuals, it is not easy to achieve consensus among the many parties involved (3/1/00; 1/25/05; 3/18/05).

**Government Intervention in Stabilizing Exchange Rates:** *Defending the value of a currency depends on the fundamental strengths of the economy.*

Krugman admired the United States’ relaxed attitude toward the international value of its currency, and suggested the same attitude and inaction for the European Central Bank against the falling value of the Euro, as long as the economy’s performance was strong (1/30/00; 4/1/01; 8/1/01). As a general rule, he maintained that big economies like the United States or the European Union can and should be relaxed about fluctuations in exchange rates. Furthermore, he claimed, attempts to manipulate currencies through intervention had a bad track record; they had usually failed, and when they failed the currency and the credibility of the government plunged in tandem. However, he made an exemption when a run on a currency is driven not by economic fundamentals but herd mentality. He argued that when the herd is running, there is a case for what people at the Fed call “slap in the face” intervention, as it appeared when the value of Euro fell in September 2000 (9/20/00).

On the other hand, when writing about Argentina, he wrote that when economic fundamentals are not healthy, devaluation may be in order (6/4/00 and 7/15/01). He criticized objective monetary standards defended by hard-money enthusiasts, who, he says, got their wish in Argentina in 1991 when the country
peged its peso to the dollar and backed each peso with a dollar in reserves.\(^3\) Krugman claimed that Keynes was right, and Argentina eventually experienced a steadily contracting economy while the economies of other countries in the region recovered from their crises after devaluing their currencies. He recommended discretionary monetary policy for Argentina to fight deflation, such as cutting interest rates or letting the currency depreciate (11/7/01).

**National Security and War:** *Iraq is the wrong war, marked by cronyism, corruption, deceit, and ineptitude.*

Affirming that national security is among the responsibilities of government, Krugman said there wasn’t a real threat to our nation’s security from Iraq, and using “cherry-picked intelligence” (5/8/06) the administration misled us about the reasons for the war. Krugman devoted 81 articles to the topic, including post-war recovery efforts.

While he is against the war in Iraq, he has criticized the administration for not making sufficient budget allocations for public safety and security at home, leaving the country vulnerable to attacks. After September 11, he argued that airport security should have been treated as a law-enforcement issue and paid for by either the airport or the national government, instead of the airlines:

> [T]he fault lies in ourselves, for depending on private companies to do a job that properly belongs in the public domain. ... there are some things on which the government must spend money, and not all of them involve soldiers. (9/16/01)

There are some things that governments must do. A private firm would always have an incentive to pinch pennies at the expense of public safety. And that’s just not acceptable when the stakes are so high, and in particular when what we need are proud public servants, prepared to do whatever it takes to protect us—people like New York’s heroic firefighters—rather than employees who feel that they are paid as little as possible by a company focused on the bottom line. Furthermore, study after study has urged the federalization of airport security, for pretty much the same reasons city governments take responsibility for firefighting. We need to increase federal spending to have programs whose purpose is to protect the public and restore confidence. (10/10/01)

Krugman accused the Bush administration of military adventurism. He said they overestimated the threat from Iraq. He accused them of ignoring warn-

---

\(^3\) Schuler (2005) disputes the characterizations of Argentina offered by Krugman and a great many other economists.
ings from military professionals that a prolonged postwar occupation would tie down much of our military, undermine our military readiness, and thereby weaken our national security. He argued that in early 2002, the Bush administration, already focused on Iraq, ignored pleas to commit more forces to Afghanistan. As a result, the Taliban was resurgent, Osama bin Laden, the real threat, was still out there, and Bush was putting America at risk by not admitting a mistake and by politicizing the war on terror (10/10/03; 6/3/03; 6/24/03; 7/15/03; 7/22/03; 12/19/03; 4/30/04; 9/14/04; 5/8/2006; 10/27/06).

He criticized the insufficiency of funding for the military and argued that the government risks destroying the viability of our voluntary army with a war that wasn’t necessary (7/22/03; 8/12/03). He also accused the administration of lack of accountability, cronyism and corruption; and claimed that privatization in the government and the reliance on private contractors in Iraq to carry out tasks usually performed by government workers are causing high rate of non-combat deaths (8/12/03; 5/4/04; 8/21/06):

There are about 20,000 armed “security contractors” in Iraq, and they have been assigned critical tasks, from guarding top officials to training the Iraqi Army.

Like the mercenaries of old, today’s corporate mercenaries have discipline problems. “They shoot people, and someone else has to deal with the aftermath,” declared a U.S. officer last year.

And armed men operating outside the military chain of command have caused at least one catastrophe. Remember the four Americans hung from a bridge? They were security contractors from Blackwater USA who blundered into Falluja—bypassing a Marine checkpoint—while the Marines were trying to pursue a methodical strategy of pacifying the city. The killing of the four, and the knee-jerk reaction of the White House—which ordered an all-out assault, then called it off as casualties mounted—may have ended the last chance of containing the insurgency.

Yet Blackwater, whose chief executive is a major contributor to the Republican Party, continues to thrive. The Department of Homeland Security sent heavily armed Blackwater employees into New Orleans immediately after Katrina.

To whom are such contractors accountable? Last week a judge threw out a jury’s $10 million verdict against Custer Battles, a private contractor that was hired, among other things, to provide security at
Baghdad’s airport. Custer Battles has become a symbol of the mix of cronyism, corruption and sheer amateurishness that doomed the Iraq adventure—and the judge didn’t challenge the jury’s finding that the company engaged in blatant fraud. (8/21/06)

Major contractors believed, correctly, that their political connections insulated them from accountability. … The administration and its allies in Congress fought accountability all the way. Administration officials have made repeated backdoor efforts to close the office of Mr. Bowen, whose job is to oversee the use of reconstruction money. … The bottom line is that those charged with rebuilding Iraq had no incentive to do the job right, so they didn’t. (11/3/06)

Krugman claimed that calls to “stay the course” in Iraq are fatuous. American soldiers are winning battles, but we’re losing the war. He suggested troop withdrawal in Iraq and redeployment in Afghanistan:

[O]ur military is under severe strain; we’re creating more terrorists than we’re killing; our reputation, including our moral authority, is damaged each month this goes on. So, we should get realistic, and look in earnest for an exit. (8/6/04)

Iraq is a lost cause. It’s just a matter of arithmetic: given the violence of the environment, with ethnic groups and rival militias at each other’s throats, American forces there are large enough to suffer terrible losses, but far too small to stabilize the country. … Afghanistan, on the other hand, is a war we haven’t yet lost, and it’s just possible that a new commitment of forces there might turn things around.

The moral is clear—we need to get out of Iraq, not because we want to cut and run, but because our continuing presence is doing nothing but wasting American lives. And if we do free up our forces (and those of our British allies), we might still be able to save Afghanistan.

The classic analysis of the arithmetic of insurgencies is a 1995 article by James T. Quinlivan. Mr. Quinlivan’s comparisons suggested that even small countries might need large occupying forces. Specifically, in some cases it was possible to stabilize countries with between 4 and 10 troops per 1,000 inhabitants. … The implication
was clear: “Many countries are simply too big to be plausible candidates for stabilization by external forces,” Mr. Quinlivan wrote. … And that means that stabilizing Iraq would require a force of at least 20 troops per 1,000 Iraqis—that is, 500,000 soldiers and marines. We don’t have that kind of force. …

However, things in Afghanistan aren’t yet as far gone as they are in Iraq, and it’s possible that a smaller force … might be enough to stabilize the situation. But right now, the forces trying to stabilize Afghanistan are absurdly small … If we stopped trying to do the impossible in Iraq, both we and the British would be able to put more troops in a place where they might still do some good. But we have to do something soon: the commander of NATO forces in Afghanistan says that most of the population will switch its allegiance to a resurgent Taliban unless things get better by this time next year.

It’s hard to believe that the world’s only superpower is on the verge of losing not just one but two wars. But the arithmetic of stability operations suggests that unless we give up our futile efforts in Iraq, we’re on track to do just that. (10/27/06)

REFERENCES


Go to the main article on Paul Krugman

Go to January 2008 Table of Contents with links to articles