Transcript of IMF podcast:

Paul Krugman on Zombie ideas and Economic Recovery

Paul Krugman:

I'm an optimist about the potential for a rapid recovery, but I, suddenly, am now getting very, very worried about the very near future, like next month, when a lot of things may go very badly wrong.

Paul Krugman:

I'm Paul Krugman, professor of Economics at the Graduate Center of the City University of New York, also a columnist for the New York Times, an economist moonlighting as a journalist and here to talk with y'all.

Bruce Edwards:

And welcome to this podcast from the International Monetary Fund. I'm Bruce Edwards. There's a lot of things the IMF does that people don't often hear about. One is capacity development, helping government strengthen their ability to make good policy decisions and to implement them. Nobel Laureate, Paul Krugman was invited by the Institute for Capacity Development to share his insight into where the economy stands now in the context of the global pandemic. His thoughts on what an economic recovery might look like, what policies may help it along, and what policies might not.

Paul Krugman:

We are still, in some sense, in period one. There's still another period where a lot of activity is suppressed by the viral threat. That potentially could have a lot of spillover to the rest of the economy, negative spillover. We suppressed that by providing unprecedented, generous aid to unemployed workers, to stressed firms. There is now a very real possibility, maybe even a likelihood, that a lot of that aid will be withdrawn before the viral threat is over. And so, the issues that we thought had been resolved by the aid packages or March may come back.

Paul Krugman:

In a way, I have now shifted my focus right now from "what are the dynamics of recovery after the pandemic" to "what's the impact of the likely fiscal retrenchment with the pandemic still on," and it's actually kind of scary. It actually looks like we may be facing a severe ... effectively, a policy shock in the form of the withdrawal of support policies.
Bruce Edwards:

Professor Paul Krugman joined me virtually, of course, after his IMF presentation to talk about the current crisis and how zombie ideas, the topic of his latest book, might hinder the economic recovery.

Bruce Edwards:

So, I heard you say earlier this year, and it was before the virus started spread, that while you were worried about our ability to absorb a major shock, that you couldn't see anything in the horizon that could spark another global financial crisis. How would you compare the 2008 financial crisis with the one that we're living today, that was caused so suddenly by this pandemic?

Paul Krugman:

Yeah. I mean, the actual scale of the current crisis so far has been even bigger than what happened in 2008. It's really awesome how fast things have gone to hell, you might say. Now, what's different is that we really earned that last crisis. We allowed problems in our system to fester. We had too much debt, too many complex financial arrangements that nobody understand. We really had created our own vulnerability, and we effectively tripped over our own shoelaces. It wasn't some external cause that led to that crisis. It was just that we were living in a bubble, literally, and when, at a certain point, the bubble became unsustainable, and everything fell apart. This time, it was really something that was effectively from outside. Now, it's true that epidemiologists have been warning us for a while that something like this could happen, but still, it wasn't part of the menu of things that we're looking at, and it wasn't the result of particular irresponsibility or overreach by anybody.

Paul Krugman:

So, this is, on the one side, worse than anything I think anyone was contemplating. On the other hand, I think it's fundamentally more tractable, at least in terms of the economics, than the last one because this is not a defect in our economic system. This is just a ... We bungled a public health issue, but if we can correct that, then we're still sustainable economically.

Bruce Edwards:

So, in the preface of your latest book, Arguing with Zombies, you say as a commentator, you try to keep it simple. So, in the US today, there are more than 20 million people unemployed, and the local economies have been seriously wounded by this lockdown. Yet, markets continue to stay steady, even thrive, some would say. What is the simple explanation for that?

Paul Krugman:

Okay. Well, it's in two pieces. One is that the stock market isn't just a barometer of how much people think ... how much money they think they can make by investing in stocks. It's a barometer of how much money they think they can make in stocks relative to the alternatives. If you look at the alternatives to buying stocks, they don't look very attractive right now. The interest rate on 10-year government bonds is about 0.7% in the United States, which is astonishingly low and not enough to keep up with inflation. So, to some extent, people are piling into stocks because it'll give you some return anyway over time. That's part of it.

Now, there's something else. There does seem to be a ... A month or a month-and-a-half ago, I said that's the main story here, but stocks have gone up substantially since then, and it's hard to say exactly why. The actual outlook for the virus has gotten worse, and then, you just have to say, "Look, people who buy stocks are people, and they get caught up in enthusiasms." And if they see prices rising, they tend to buy in. There's a lot of people who ... people like Robert Shiller who've studied what happens in financial markets, find that there's a heavy element of just
Shiller who've studied what happens in financial markets, find that there's a heavy element of just plain people extrapolate from the recent past. And so, people made money in stocks. There's always going to be some people who think that if I made money in the past month, I can keep making money the next month. So, I think there's probably a fairly strong element of just plain people not really thinking that hard about does this all make sense.

Bruce Edwards:

And sticking with this disconnect between markets and what's actually happening or what seems to be happening on the streets, does this mean fewer people are getting a larger piece of the pie? How do you see this playing out in terms of inequality?

Paul Krugman:

Well, there's always ... I mean, stocks are held disproportionately by a small number of affluent people. So, when the stock market goes up, that's going to raise the share of total wealth that's in the hands of the 1%, the .1%. Basically, regular people may have a few stocks in their retirement account, but that's it. And large holdings of stocks are pretty much only ... not just the rich or wealthier than you and me, but they are much more likely to hold their wealth in the form of stocks as opposed to the value of their house. So, yeah, it increases inequalities of wealth, but if these are really just paper gains that will go away, then no long-term consequence. The things that are driving inequality are not the capital gains on stocks or the lack thereof. It's really the disparities in income. So, I'd say don't pay too much attention to what the stock market is doing to inequality and pay a lot of attention to what things like union bargaining power, executive salaries, and all of that is doing to inequality.

Bruce Edwards:

And as I mentioned before, your latest book is called Arguing with Zombies and referring to how bad ideas never seem to go away, and one of those ideas is tax cuts, how trickle down economics doesn't work. Why do you think this idea still carries so much weight politically? And is it possibly because people think that their tax dollars aren't working for them?

Paul Krugman:

Oh, well, actually, I think it was Upton Sinclair who said, "It's difficult to get a man to understand something when his salary depends on his not understanding it." If you actually ask what supports this belief in the magical power of tax cuts, especially tax cuts on wealthy people, it's supported by people who are basically paid to expound that view and because it doesn't take an exorbitant amount of money from billionaires supporting think tanks, et cetera, to keep an idea alive, whatever its merits. And so, this is really as close as anything to just plain the power of money to disseminate propaganda. Now, there might be a bit more to that. There is a kind of pervasive ideology out there that says that the government does no good, and it's only harm, and why are they taking my hard-earned money to spend it on useless bureaucrats, which is actually not where the money goes.

Paul Krugman:

But actually, I spent a fair bit of time looking at polling on this, and it's actually surprising how little the general public buys into all of that. That's a doctrine that conservative pundits and conservative legislators may buy into, but the general public, in the US, the general public wants to see more spending on Social Security, more spending on healthcare, wants to see higher taxes on rich people. So, the really interesting question is not why do people fall for this, but why do ideas that actually don't have a lot of popular support, nonetheless, carry so much weight in the political process?

Bruce Edwards:

That's quite encouraging, actually.

Paul Krugman:
Yeah. A lot of people are actually well left of center in terms of our political alignment but don't necessarily know that.

Bruce Edwards:

And sticking with this concept of zombie ideas, do you think that there are some zombie ideas now out there that weren't zombie ideas only a few months ago before the pandemic, and that kind of thinking could inhibit the economic recovery from the pandemic?

Paul Krugman:

Well, I'm not sure. I mean, I'm not sure that there are any new zombies or that we've turned anything that previously made sense into a zombie, but some of the zombie ideas are lurking out there, ready to do a lot of damage. During the last economic crisis, a huge amount of damage was done by the idea that helping the unemployed is destructive because it encourages them not to work, which was never an important factor in the aftermath of the financial crisis. But you're hearing that again. It's actually very relevant. As we speak, we're about 18 days from money people losing extended unemployment benefits, and it'll be a catastrophe if we don't actually provide aid. But you're hearing a lot of the usual suspects saying, "Oh, we need to end those extraordinary benefits because they're encouraging people to be lazy and stay at home," which is ... We want people to stay at home if they're in a pandemic-afflicted industry.

Paul Krugman:

So, that's a zombie that was destructive in, say, 2010 but could be even more destructive now if it actually ends up dictating policy. The fears of debt, we've spent years and years with a drumbeat of panic about the level of government debt despite the fact that, talking about the market, is the financial market has never showed the slightest hint of concern about the level of debt. So, that may become an issue because we've spent a lot of money to ... as we should have, to cushion the effects of this pandemic, and if we withdraw that support too soon because we're afraid of the big, bad debt, then that could be really nasty.

Bruce Edwards:

So, a lot of your book and your New York Times columns are about how everything is so politicized now, and you are, indeed, one of the very few economists who puts themselves out there and deconstructs some of the political motivations behind decisions that do influence the economy one way or the other. To what extent do you think political leaders have the power to drive the economy, or is it the other way around?

Paul Krugman:

Oh, there are times when they do, and there are times when they don't. So, in normal times, what the president or the prime minister or whatever does matters far less than people think. If there is a public official who has a lot of impact on the economy, it's not the president of the United States but the chairman of the Federal Reserve. But even the Fed is kind of predictable most of the time, though, in terms of what it does. So, the personalities, even ideology, matters a lot less than people think. But there are times when you really need leadership, and the quality of that leadership matters. So, it's a very much ... It depends on the circumstances. In the immediate aftermath of the financial crisis, having leaders who would spend money wisely to support the economic recovery was hugely important.

Paul Krugman:

And if you had leaders who, instead, bought into some misplaced notion of sound finance, that showed up very much in unemployment. And of course, that we're now in this pandemic where public health policy and economics are inextricably intertwined. You can't really have an economic recovery until you have the virus under control, and you can't really do what it takes to get the virus under control unless you have economic policies that make the pain of lockdown
tolerable. So, it's only really in times of crisis that political leaders make a big difference, but when they're in those times, they can make an enormous difference.

Bruce Edwards:

So, in what role would you say that you or your work has had more influence on policy: as a Nobel Prize-winning economist or as a New York Times columnist?

Paul Krugman:

Oh, it makes a huge difference who's in power, and I have to say, during the Obama years, Obama was, of course, very constrained by ... He spent six of his eight years with the other party having blocking power, but still, decisions were made based upon ... There was a lot of input of hard thinking on the polices. And I would say both my roles, to the extent I had any influence at all. And one thing that you've learned very quickly if you get into any kind of prominent, visible position, is how little difference you can make. Right? But if you ask about the ideas that were actually at least influencing the way that Obama and his officials thought about policy, I would say that both my hats were kind of being ... Both of my positions mattered. They were interested in hearing from people who actually knew something about the economic issues, which in this case, the kinds of... the economic issues that we had were very much up my alley as an economist.

Paul Krugman:

And of course, they listened to public intellectuals, visible voices. So, that mattered, too. So, that was ... Actually, in those years, there was a pretty close integration. The things I had to write about at the New York Times were very largely the same things I had written academic papers on. Just a different way of writing about it but, actually, much the same thing. But in terms of actually, I proposed or I recommended a policy, and that politician did it, that has only happened to me once in my entire life, and it was the prime minister of Japan. So, the ability to actually influence events is far less. Anyone who thinks that they're running the world is basically deluded.

Bruce Edwards:

And so, this morning, you had a chat with people at the International Monetary Fund. How do you see the role of these international institutions in presenting facts and information to the general public on a global scale?

Paul Krugman:

Oh, well, to the general public, I'm not sure. I'm not sure what fraction of the public actually would read even the most accessible stuff that the IMF puts out. I doubt ... It's pretty small, but to a more select public, and actually, to policy makers, these institutions can be hugely important. In fact, one of the things ... A lot of stuff that is really relevant, the research and the exposition, a lot of it does come from institutions. I will say, I mean, I've been a professor all my life, but often, it's not just the professors who aren't keeping up with up-to-the-moment stuff. There's also a tendency, somewhat, for academic research to lose touch with real world concerns and sometimes, just really, and a lot of the really useful stuff is coming out of the IMF, the World Bank, the Federal Reserve, the Bank for International Settlements. The research departments of these institutions are really important repositories.

Paul Krugman:

So, I once wrote that there were certain things that were, in macroeconomics, that were forgotten, or they were sort of drummed out of the academic literature. One of those things where saying reasonable things became unacceptable for kind of internal political reasons. And I used to say we'd entered a dark age of macroeconomics but that places like the IMF and the Federal Reserve had become like monasteries that preserved the ancient teachings through the dark age. There was actually a ... If you wanted to have good, sensible, useful macroeconomics, you probably
didn't want to go to the University of Chicago, and you did want to go to the IMF research department.

Bruce Edwards:

And so, you think that still stands true?

Paul Krugman:

Oh, yeah. No, maybe even more than ever. The international organization research departments have became really valuable repositories and sources of good sense that there have been nothing quite like ... Look, if you want an example of somebody who really stepped over from highly respected academic to highly influential policy thinker with access to policy makers, you want to talk about Olivier Blanchard, who was, for a long time, the chief economist of the IMF with enormous impact on the whole discourse about public policy and totally benign. And I say that out of genuine feeling, not just because he was a classmate of mine in grad school.

Bruce Edwards:

Professor Paul Krugman, it's been an absolute pleasure speaking with you. Thanks so much for joining us.

Paul Krugman:

Okay. Take care.

Bruce Edwards:

Paul Krugman is professor of economics at the Graduate Center of the City University of New York, a New York Times columnist, and author, his latest book being Arguing with Zombies. He won the Nobel Prize in economic sciences in 2008 for his work in international trade theory. Krugman spoke to economists at the IMF Institute for Capacity Development before our conversation. Go to IMF.org to find out more about the institute's work and training opportunities. And look for other IMF podcasts wherever you get your podcasts, subscribe if you like what you're hearing, and follow us on Twitter, @IMF_podcast. Thanks for listening.