

An Interview with Paul Krugman. . . .

by Kevin Drum

You probably think you know Paul Krugman, the liberal *New York Times* columnist with never a kind word for George Bush. Think again.

Is Krugman merely someone who dislikes Bush and thinks his policies are horribly misguided? Oh no. In fact, in his most recent book, *The Great Unraveling*, he makes it clear that he thinks it's much, much worse than that. Here's a set of excerpts from the introduction in which he spells out exactly how he feels. Be sure not to skip past this if you want the interview that follows to make sense:

Most people have been slow to realize just how awesome a sea change has taken place in the domestic political scene. . . . The public still has little sense of how radical our leading politicians really are. . . . Just before putting this book to bed, I discovered a volume that describes the situation almost perfectly . . . an old book by, of all people, Henry Kissinger. . . .

In the first few pages, Kissinger describes the problems confronting a heretofore stable diplomatic system when it is faced with a "revolutionary power"—a power that does not accept that system's legitimacy. . . . It seems clear to me that one should regard America's right-wing movement . . . as a revolutionary power in Kissinger's sense. . . .

In fact, there's ample evidence that key elements of the coalition that now runs the country believe that some long-established American political and social institutions should not, in principle, exist. . . . Consider, for example. . . . New Deal programs like Social Security and unemployment insurance, Great Society programs like Medicare. . . . Or consider foreign policy . . . separation of church and state. . . . The goal would seem to be something like this: a country that basically has no social safety net at home, which relies mainly on military force to enforce its will abroad, in which schools don't teach evolution but do teach religion and—possibly—in which elections are only a formality. . . .

Surely, says the conventional wisdom, we should discount this rhetoric: the goals of the right are more limited than this picture suggests. Or are they?

Back to Kissinger. His description of the baffled response of established powers in the face of a revolutionary challenge works equally well as an account of how the American political and media establishment has responded to the radicalism of the Bush administration over the past two years: . . . "they find it nearly impossible to take at face value the assertions of the revolutionary power that it means to smash the existing framework" . . . this passage sent chills down my spine. . . .

[. . .]

There's a pattern . . . within the Bush administration . . . which should suggest that the administration itself has radical goals. But in each case the administration has reassured moderates by pretending otherwise—by offering rationales for its policy that don't seem all that radical. And in each case moderates have followed a strategy of appeasement . . . this is hard for journalists to deal with: they don't want to sound like crazy conspiracy theorists. But there's nothing crazy about ferreting out the real goals of the

right wing; on the contrary, it's unrealistic to pretend that there *isn't* a sort of conspiracy here, albeit one whose organization and goals are pretty much out in the open. . . .

Here's a bit more from Kissinger: "The distinguishing feature of a revolutionary power is not that it feels threatened . . . *but that absolutely nothing can reassure it* (Kissinger's emphasis). Only absolute security—the neutralization of the opponent—is considered a sufficient guarantee". . . . I don't know where the right's agenda stops, but I have learned never to assume that it can be appeased through limited concessions. Pundits who predict moderation on the part of the Bush administration, on any issue, have been consistently wrong. . . .

I have a vision—maybe just a hope—of a great revulsion: a moment in which the American people look at what is happening, realize how their good will and patriotism have been abused, and put a stop to this drive to destroy much of what is best in our country. How and when this moment will come, I don't know. But one thing is clear: it cannot happen unless we all make an effort to see and report the truth about what is happening.

Whew. Alarming enough for you?

What more can I say after all that? A couple of things: first, in person Krugman hardly fits his image of a fire breathing demon of the left. In fact, he's got a hint of the geeky air you might expect from a Princeton professor of economics: slightly harrassed, stuff in his shirt pocket, a bit of a nervous speaking style.

Second, although there's some repetition in the book—an occupational hazard of column collections—it's a great read (currently ranked #12 on Amazon and likely to soon join the five other liberal books currently dominating the *New York Times* nonfiction bestseller list.) And you really do have to read it to truly understand where Krugman is coming from. It's one thing to hear him say that the Bush administration lies continually, it's another to read column after column in which he documents it. The lies are relentless, brazen, and indisputable.

When I caught up with Krugman he had flown into town to appear on Bill Maher's show the previous night—"with Jesse Ventura, if you can imagine that"—and had just driven from Hollywood down to Del Mar to appear at a book signing at a local independent bookstore. I got to speak with him for about 25 minutes before making way for a reporter from the *San Diego Union-Tribune*. Here's the interview.

Q: The main theme of *The Great Unraveling* is how much Bush lies. But Reagan lied, Clinton lied, Johnson lied, all presidents lie. What's the difference between them and Bush?

Actually, I miss Reagan. I never thought I'd say that, but. . . .

Reagan lied a little bit, and his policies were often crazy, but they wouldn't do $2 - 1 = 4$. They'd say, if we have our tax cut we'll have this wonderful supply side thing and the economy will boom and it will pay for itself, which was a crazy theory, but it wasn't a blatant lie about the actual content of the policy.

Bush says, I've got a tax cut that's aimed at working people, ordinary working people, and then you just take a look at it and discover that most of it's coming from elimination of the estate tax and a cut in the top bracket, so it's heavily tilted toward just a handful of people at the top. It's just a flat lie about what the tax cut is.

So this is different, this is really more extreme. We're not talking about disagreements about policy at this point, we're talking about people who insist that things that are flatly not true are true, that black is white, up is down.

Q: One of the points in your book is that "reasonable" liberals aren't taking this

seriously enough, that they just don't see the things you do. But doesn't that make you sound like a crank? How do you. . .

Well, you just keep on hammering it, and you try to document it.

During the 2000 campaign I was inspired to get radicalized. You know, this was not your ordinary average slightly misleading campaign, this was something off the scale, but most people just wouldn't go at it. And that's when I started saying that if Bush said the Earth was flat, the resulting article would say "Shape of the Earth: Views Differ." And then after September 11th it was really impossible, because people wanted to believe good things that just weren't true.

So you just keep on hammering, and I think it's actually changed a lot. In fact, when I wrote the intro to the book the guys at Norton were worried, they were saying, *that's pretty tough stuff*. But at this point it doesn't seem that far out anymore, there are a fair number of people saying the same thing. In fact, I almost felt as if we missed the window when this stuff would still be shocking, because a lot of people are starting to see it. The scales are falling from people's eyes.

Q: The introduction to your book *was* tough. It almost sounded like, just in case you still haven't figured out how Paul Krugman feels about things. . . .

Well, I wanted a context. I was having a little trouble with the editors who kept on pushing the book to be about the bubble and its aftermath. And while there's a fair bit about that, that's not actually the central theme. The central theme is, we're being lied to by our leaders, and I just felt I really needed to put that very strongly in context.

If you look at what the introduction is about a lot, it's partly about what these guys are doing, but it's partly about why reasonable people have such a hard time facing up to what they're doing. The Kissinger quote is not about what the France of Robespierre was doing, it's about why the diplomats of Austria couldn't handle what the France of Robespierre was doing, and that's why they just couldn't understand that such a thing was really possible. And that's what it's addressed to, the intro is really addressed to the liberal or moderate who just can't believe that Bush isn't another Reagan, that this is something really much more radical even than that.

Q: What do you think is the difference with Bush? The movement conservatives, the Grover Norquists of the world, they've been around for 20 years plus. . . .

They're much more organized and the funding has increased to a level that wasn't there before. Basically there's a lot more money behind it, there's a lot more organized fanaticism. The strength of the hard religious right—even though the numbers are probably smaller than they were in the 80s—is higher because the fanaticism of those who remain is much greater.

And of course September 11th, which gave them the ability to turn national security into a club with which to dash down opposition to this radical agenda, has made it much more severe than it was. Basically, they just got better at it. The "compassionate conservative" front is something that they learned their lessons about. They learned not to run people like Steve Forbes, but to run people who could talk a better game while actually doing the same stuff.

Q: What do you think are their underlying motives?

If you think that income inequality is one of the things that drives this—and I do believe it's part of the story—then you have to look at the self-reinforcing process in which growing concentration of wealth at the top feeds into the political power of the people who serve that class's interest. I don't want to sound like a Marxist here, but there's some of that going on. What we thought was an explosion of inequality in the Reagan years was nothing compared to where we are now.

Q: Of course, that happened all through the Clinton years too.

That's right, income inequality was going up the whole time, because Clinton was actually a very moderate president. Clinton was not really doing anything to lean against it except for that one fairly significant tax increase at the beginning, but the underlying trends were still going. So, in 1975 CEOs earned about 40 times the average wage, by the end of the Reagan era they were earning 130 times the average wage, and we thought that was a wildly unequal society, but now it's 500 times. So whatever it is that was going on in the 80s is now much more powerful.

Q: But they're still pissed off.

Well, that's what I don't understand. It's odd that the better things get if you are rich or a fundamentalist Christian, the more angry they get. That's the nice thing about the Kissinger quote. I'm not sure he understands it either, but this notion that if you have this kind of revolutionary power you don't feel secure unless you have a complete monopoly of power, that seems to be the way it's playing out.

Q: Purely on an economic basis, what's wrong with income inequality? Does it hurt? And why?

Well, I think you can't do it on a pure economic basis, you have to think how it plays through the social system and the political process. . .

Q: Suppose it keeps going up. What happens?

One thing that happens is you have an adversarial kind of society, you have a society in which people don't share the same lives at all, don't share the same values. Politically, it leads to erosion of the support for public institutions that we need.

Take this catastrophe in Alabama just now. It was a dispute about taxes, but what's ultimately at stake is, are they going to do anything to improve that dismal primary education system in Alabama or is it going to get even worse because of the budget crisis? And the answer is, it's going to get even worse.

It's funny, some of the businesses in Alabama were supporting Riley's tax plan because they actually are starting to understand that a decent education level is more important to them than a couple of points off their taxes. But it gets harder to have that sort of enlightened social policy when you have a society that's so radically differentiated. Think of Latin America. The characteristic thing in Latin America is that they have lousy infrastructure and lousy education systems because they're so polarized on income, and in turn that leads to low development and polarized income. You get this kind of downward spiral. And there's something like that happening here.

Q: But despite 20 years of this, starting in the early 80s, there's actually remarkably little class envy among the working class in America.

Yeah, and that's partly because people don't know. There's a funny thing that happened when I had that piece on inequality from the *Times* magazine a year ago. I had no control over the artwork and didn't see it until everyone else saw it, and they had this big picture of what they thought was a mansion. But it wasn't a mansion, it wasn't what the really rich are building now, it was a roughly \$3 million house of about 7,000 square feet, and there are a few of those in Princeton just down the road from me. The people doing the *Times* magazine artwork just don't realize how rich the rich are these days, what the real excesses look like, and I think that's the general thing. I think most people are not well informed, and after all who is going to inform them? It's the power of propaganda: 49% of the public thinks that most people end up paying the estate tax.

Q: Why is the Bush administration doing what they're doing economically? Obviously they want to get reelected, and they know a strong economy is important to getting reelected. So why deliberately follow policies that aren't going to help?

I think they were betting that the economy would spontaneously strengthen. They were betting that they would get their recovery—and they might still be right, though I think

it's almost impossible that Bush will end this term with more jobs than when he came in—but in any case the trend might be up enough that they can still pull it off.

But they've been shocked by this, they expected that it would turn out OK, and their strategy has been to play to the base. They've just thought that that's what maximizes reelection chances. God knows. After all, on what issue have they actually said, here's a problem and we have to solve it? There have been none of those, there have just been, *here's a problem and how can we use it to advance the base's agenda?* And it's still better than even odds that they will get reelected regardless.

Beyond that, obviously Grover Norquist and the Heritage Foundation see all this as a way to radically downsize government by creating so much red ink that it becomes politically possible to chip away at Social Security and Medicare. I doubt that Bush understands that that's where it's going, but in effect he's allowing himself to be used by people who have those sorts of goals.

Q: And they honestly think they can do that? I don't think politically you can cut those programs.

Train wreck is a way overused metaphor, but we're headed for some kind of collision, and there are three things that can happen. Just by the arithmetic, you can either have big tax increases, roll back the whole Bush program plus some; or you can sharply cut Medicare and Social Security, because that's where the money is; or the U.S. just tootles along until we actually have a financial crisis where the marginal buyer of U.S. treasury bills, which is actually the Reserve Bank of China, says, we don't trust these guys anymore—and we turn into Argentina. All three of those are clearly impossible, and yet one of them has to happen, so, your choice. Which one?

Q: Well, how about *your* choice? What's your best guess?

I think financial crisis, and then how it falls out is 50-50, either New Deal or back to McKinley, and I think it's anybody's guess which one of those it is. It's crazy stuff, but think about where I am on this. My take on the numbers is no different from Brad DeLong's, it's no different from CBO's now, and we all look at this and we all see this curve that marches steadily upwards and then heads for the sky after the baby boomers start retiring. I don't know what Brad thinks, I think he's open-minded [*actually, it turns out he's optimistic that voters will eventually come to their senses and raise taxes on the rich. — ed.*], but the general view is: yes, but this is America, it can't happen, so something will come up. And I'm just willing to say I don't see any noncatastrophic solution to this, I don't see an incremental stepwise resolution. I think something drastic is really going to happen.

Q: How does all this feed in to the current account deficit? Will China keep financing that forever?

They're financing both the current account deficit, and, as it turns out, directly financing the government deficit. We were running a big current account deficit that accelerated through the late 90s, but there you could say that it was due to the strength of the U.S. economy, it was all this investment demand, technological revolution, and after all, the government was in surplus.

Now, we're back in twin deficits territory, and there are two related issues, the solvency of the federal government and the solvency of the United States per se, and both of them are now somewhat in question.

Maybe I'm a captive of my own model, but I think that what happens when the world loses faith in the U.S. as a place to invest is that the dollar plunges, but that in itself is not so bad because the lucky thing is our foreign debts are in dollars, so we don't do an Indonesia or an Argentina. But the federal government's solvency is a much more critical thing because it needs to keep on borrowing more and more just to pay its bills.

Q: What happens if these foreign countries do stop buying U.S. bonds? Is this a real concern, or a tinfoil hat kind of thing?

Oh, I don't think China is going to do it to pressure us. You can just barely conceive of a situation where they're mad at us because we're keeping them from invading Taiwan or something, but more likely they just start to wonder if this is really a good place to be putting their money.

So what happens is a plunge in the dollar when they decide to stop buying and start cashing in, and a spike in U.S. interest rates. But you might also get in a situation where the interest rates the government has to pay to roll over its debt become so high that you get an accelerating problem, which is what happened in Argentina. What happened was that suddenly no one would buy Argentine debt unless they paid a twenty something percent interest rate, and everybody says, but if they have to roll over their debt at a twenty percent interest rate, there's no way they can pay that back. So the whole thing grinds to a halt and the cash flow just dries up.

Q: And do you think that's a serious possibility for the United States?

Yeah, just take the numbers as they now look, and that's where it heads. And you might say, OK, we can easily handle it. U.S. taxes are 26 percent of GDP in the U.S., in Canada they're 38 percent of GDP. If you raise U.S. taxes to Canadian levels there's plenty of money to cope with all of this. But politically we've got a deadlock, and it's hard to imagine that happening.

So you say, but this can't happen, this is America, and I guess my answer is, is it? Is this the same country that we had in 1970? I think we have a much more polarized political system, a much more polarized social climate. We certainly aren't the country of Franklin Roosevelt, and we're probably not the country of Richard Nixon either, so I think we have to take seriously the possibility that things won't work out this time.

Q: If you were king of the economy, what's the Krugman plan?

A phased elimination of all the Bush tax cuts, plus some additional taxes. I'd probably look first at some way to make the corporate profits tax actually effective again—the nominal rate is 35% but the effective rate is only 15% or so. Look at some cuts, maybe you start to talk about retirement age, and possibly some means testing of Medicare, and that's enough to bring the budget under control. And meanwhile you have to manage the economy, you have to talk about what we can do to actually get demand going faster, and there are lots of things you can do. . . .

Q: Are there? We're running a \$500 billion deficit, interest rates are at one percent. . .

We're running the wrong kind of deficit. We need aid to state and local government, more checks to lower and middle income people. We need some WPA type of projects, and as it happens the homeland security stuff would be a perfect candidate. I just looked to find out how much of that \$20 billion New York has actually gotten so far, and the answer is \$5.6 billion. Two years after September 11th New York has gotten less than \$6 billion in aid, so how about a little bit more on all of that?

Q: In terms of a classic Keynesian stimulus, homeland security is a perfect fit.

Yeah, but they don't want to do it. Partly because they don't like government, partly because a lot of it would be going to New York and they don't like New York. It's pretty amazing.

Q: Let me switch gears. One of the things you notice when you read a whole bunch of your columns in just a few hours is how short they are, and how little you actually get to say in each one. Is that a frustrating thing?

I've sort of disciplined myself, I have 750-word thoughts now. I started writing nontechnical stuff as 5,000 word pieces for *Foreign Affairs*, and then I disciplined myself down to writing 1300 word pieces for *Slate*, and then 900 word pieces for *Fortune*, and now I get 750 words. There's a lot of things you can't do, and you can't count on readers having read the last two columns in sequence, so yes, it's hard. But that's what people read.

Q: How do you work? Where do you get your information? From people, from the web, from Lexis, from...?

I read seven newspapers every morning. I get four delivered, I read the *Washington Post* online, and I look at a couple of the British papers, not always the same two. I'm on the web, I read Josh Marshall regularly, and Atrios regularly, and I read you occasionally, once every couple of days so I know what's going on. People email me stuff, or tell me things I should read. I'm constantly monitoring and often talking with or corresponding with the good think tanks and research institutes—and yes, there is a tiny conspiracy between me and Bob Greenstein at CBPP. As Tom Friedman says, it's a target rich environment, there are so many things out there, there are at least six outrages a week that you ought to be poking on.

Q: Let's finish with some quickies. What are your three favorite Bush lies?

On economics, the one that got me going was Social Security during the 2000 campaign, when Bush basically said, I'm going to take a trillion dollars away and it's going to strengthen the system. Another one is the distributional stuff, just the raw lie that this is a middle class tax cut. I could come up with another economic one, but obviously I'm really exercised about the Iraq war. Even if you think the war was worth fighting, and I think that's a diminishing perception among people, we were lied into it, and that's scary, that's never happened before.

Q: What are the three biggest problems the United States faces right now?

The budget deficit, joblessness, and, ultimately, what really, really scares me, even though I can't write about it all the time, is the environment. That's more important than anything.