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Krugman the Keynesian

by William L. Anderson

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Ever since he started writing his semi-weekly column for the *New York Times*, Paul Krugman has been a lightning rod of sorts. The Princeton University faculty member has become the *Times'* resident "expert" on economic issues, and he usually fails to disappoint, at least if creating controversy constitutes success.

I admit to being a regular reader of Krugman's columns, and I suspect that many of my fellow economists on all sides of the ideological divide read him as well, which is one reason the *Times* has made him a featured star. Of course, being of the Austrian School of Economics, I find very little in Krugman's statements on economics with which I can agree. (I think that some of his criticisms of the Bush Administration's policies are correct—and especially the war in Iraq—although the policy alternatives that he presents usually are as bad or even worse.) In fact, whenever I email Krugman's columns to my friends—which I do often—I also send the accompanying message, "Krugman is evil."



Yet, it does no good simply to accuse one of the nation's most "elite" economists—most likely a future Nobel Prize winner—of being "evil." He may be a right decent fellow, for all I know. What I consider to be evil is not his personality nor his Massachusetts Institute of Technology pedigree nor his wealth and fame. Rather, I consider that the policies he recommends are evil because, in the end, they constitute fraud. That's right, fraud.

Before deconstructing Krugman's economic views, let me also say that at least when it comes to his columns, he is more of a political operative than he is an economist. (That being said, many "public intellectuals" also are little more than shells for political parties, both left and right.) If all we read on economics were Krugman's columns, we would learn that Bill Clinton gave us prosperity because his administration pushed a tax increase through Congress in 1993. That tax increase, says Krugman, enabled us to "balance" the federal budget, which magically created a good economy. (That the federal budget actually was never "balanced" in conventional accounting terms, and that the alleged balanced budgets occurred late in Clinton's term during the Fed-created unsustainable boom, and not when taxes were increased seems to be off Krugman's radar screen.)

Furthermore, his columns claim that Clinton's government was the model of "fiscal responsibility," and is always full of praise for the former president's policies. My guess is that if the Clinton Administration were in power now and following basically the same budgetary and legal priorities as the Bush Administration is currently doing, he would be writing excuses for Clinton.

However, let me say that since my own writings have been extremely critical of the

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Bush Administration and both political parties, it does not bother me to read Krugman's anti-Republican rants. What does bother me is that the man pretends to be something he clearly is not: an economist.

That is correct. Let me say it again. Paul Krugman is not an economist. His colleagues in the economics profession and the editorial board of the *Times* may call him an economist, but that does not make him one.

This is harsh criticism, I realize, so I must explain my views in full. Yes, Krugman has a Ph.D. from MIT in economics, but his writings, both popular and academic, demonstrate that he does not believe in laws of economics. Instead, like most folks with socialist leanings, he believes that the state is both omniscient and omnipotent and simply by fiat can eliminate those pesky little problems caused by scarcity.

If one can surmise anything from Krugman's columns, it is that he is an unabashed Keynesian. While others in the economics profession have forsaken the Keynesian faith for things like "Rational Expectations" or "Real Business Cycles," Krugman remains true to the Church of John Maynard Keynes.

For example, he freely uses the term "liquidity trap," a Keynesian invention, to describe the current situation in Japan. The real problems holding back Japan—the failure of the Japanese state to permit the liquidation of long-malinvested capital—is totally off Krugman's radar screen. (Of course, Japan also tried for a decade to engage in Keynesian "fiscal stimulus" by engaging in huge and expensive public works projects. Today, the nation is left with massive public debt, white elephant projects, and rising unemployment and economic uncertainty.)

Other Keynesian ideals flow into Krugman's work as well. Tax cuts must always be undertaken in order to "stimulate aggregate demand," which means they must always be targeted toward those groups who pay the least in taxes. Since the Church of Keynes preaches that saving by people who are wealthy is an important reason that aggregate demand dries up, upper-income individuals must always be heavily taxed so their money will be "spent," not saved or invested in projects that fail to meet Krugman's approval.

In nearly every column, Krugman attacks the moderate tax cuts pushed by the Bush Administration, blaming them for every evil from the current "jobless recovery" to bad food for U.S. troops in Iraq. The reason for his harsh criticism is not just his political partisanship (although that is obvious in nearly everything he writes). Krugman is one who believes that "aggregate demand" fueled by consumer spending is economic salvation, so anything that actually cuts the tax rates for highest income earners is heresy to him.

The reason that I classify Krugman as a noneconomist, however, is not simply his faith in Keynesian orthodoxy. It is because Krugman demonstrates time and again that in his view, economics is nothing more than a chessboard game of aggregates and statistics. For example, Krugman is a strong supporter of fiat money. Furthermore, his theoretical views of money fall into the category of money being nothing more than a quantity variable.

While presenting money as simply a mass of quantities permits one to engage in all sorts of seemingly impressive mathematics, it says absolutely nothing about money itself. Without an understanding of money as a productive asset, and without understanding that money cannot be separated from the actions of individuals, one literally cannot talk about money at all and make economic sense. Yet, there is nothing in any of Krugman's works that suggests a marginal utility approach to monetary theory. Money simply is "M" in the equation of exchange $MV = PY$, and that is as far as it goes.

Of course, Krugman's alleged specialty is international trade, where he supposedly has

made a case for moderate protectionism as a way to prosper a nation. Unfortunately, like his other works, Krugman's work in international trade is basically an extension of macroeconomics, at least if my copy of his *International Economics* text is typical of his viewpoint.

Trade, according to Krugman, does not involve exchanges between individuals; no, trade occurs between *nations*, and, more importantly, *nation states*. It is almost as though the government of the United States trades with the government of Japan. While there is the requisite lesson on comparative advantage, it is presented entirely as an exchange between the fiction called "countries," and not as a basis for all exchange between individuals.

Even when Krugman delves into "microeconomics," he commits the same blunders as the rest of the mainstream. Economists have known since the first days of the marginalist revolution that interpersonal utility comparison are impossible to make. While ideas like "consumer surplus" and "welfare losses" can be presented in graphical form as teaching tools, they actually are works of fiction, since their use requires that one measure utility in cardinal, not ordinal, terms. Of course, the use of cardinal utility permits economists to present economic theory in mathematical terms through multivariable calculus, which is one reason that it remains in use as an explanatory tool even though it is thoroughly bogus.

Lastly, Krugman's columns demonstrate that he is unable to engage in logical arguments. Take his criticism of tax cuts, for example. His main objection is that those who "benefit" the most are "the rich." That is the extent of his argument; wealthy individuals will receive larger reductions in taxes than less-wealthy individuals, so tax cuts that slice off marginal rates are bad. Nowhere does he point out that even a tiny reduction in the top income tax rates will yield fairly large decreases in taxes wealthy individuals pay *because those people pay the lion's share of taxes in the first place*. In other words, the vaunted economist does not argue in economic terms; he simply appeals to envy and calls it economic thinking.

Even when Krugman "gets it right," he actually is wrong. In recent columns, he has admitted that there were speculative excesses in the stock market and elsewhere. However, in Krugman's world, that just happens because such unwise speculation, in his opinion, is simply nothing more than a trait of capitalism. Like most noneconomists posing as economists, Krugman does not acknowledge what Carl Menger wrote in the first lines of the first chapter of his path-breaking *Principles of Economics*: "All things are subject to the law of cause and effect."

Yes, Krugman admits there was unwise mass speculation during the latter years of the "fiscally responsible" Clinton Administration, yet he has no idea from whence it came, other than to place his faith in Keynes' dictum that these things were the results of the "animal spirits" that are released by capitalism. While Austrians can clearly point to the reckless credit expansion by the Federal Reserve during the late 1990s as the cause of the speculative bubbles, Krugman has nowhere to turn other than to say that capitalists are stupid people who need the guidance of the state.

No doubt, Krugman is an "authoritative" voice to those who advocate statism. He is a product of an elite university and has taught at the "highest levels" of academe since first earning his doctorate. Thus, those who cite Krugman as an authority in economics commit the informal fallacy of *argumentum ad verecundiam* (appeal to authority). However, if one wishes to appeal to logic, clear thinking, and the realization that economic analysis begins with the individual, then Krugman is not the person to whom one goes to find answers. One might as well call on a politician for intellectual sustenance as to call on Paul Krugman. In the final analysis, both will provide the same answer: expand the state, and when that creates problems, expand the state some more.

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