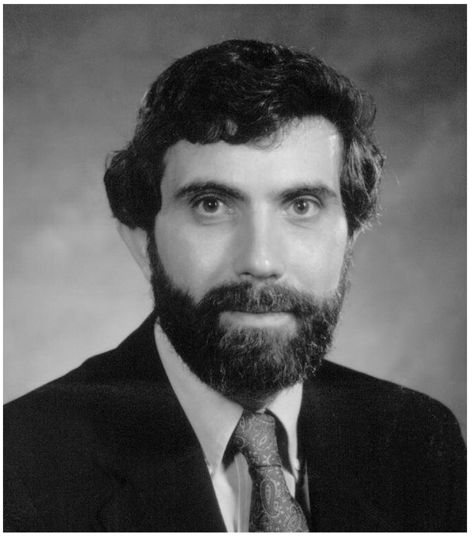
# Fresh Thoughts from a Saltwater Economist

## Interview with Paul Krugman



Paul Krugman, Professor of Economics at MIT

*Paul Krugman, Professor of Economics at Massachusetts Institute of Technology (MIT), is one of the world's leading economists. In 1991, he was awarded the John Bates Clark Medal by the American Economics Association, a bi-annual award given to the best American economist under the age of 40. Professor Krugman is also one of the small number of academic economists whose name is well known to the public through his many popular books. He is renowned for challenging the "conventional wisdom" and for doing so unconventionally; his often controversial views and no-holds-barred style have gained him many opponents as well as admirers.* World Economic Affairs *sees it as valuable to have an interview with such an influential economist—to hear his views on issues as varied as competitiveness, trade policy, the EMU, and price stability. Professor Krugman was interviewed by Christopher Ragan, Editor of* World Economic Affairs.

**WORLD ECONOMIC AFFAIRS: WHO has been the greatest intellectual influence for you as a professional economist, and why?**

**Krugman:** Probably the most important would be Robert Solow at MIT. Partly because of the economics he did, which is very important, but also for his style. He is one of the great masters of strategic simplification—of taking a complex real-world issue, reducing it to its essence, and thinking about it very clearly. He is also a wonderful writer and a wonderful speaker, and I have always tried to see if I can get anywhere close to matching that level of performance.

**WEA: The academic economics profession is often viewed as being split into "schools", two of which might be called the "freshwater school", centred perhaps around the University of Chicago, and the "saltwater school", centred around Harvard and MIT. What do you think are the essential differences between these schools of thought?**

**Krugman:** I will make two points here. First, those schools apply only to one particular issue in economics—a fairly narrow one but an important one—which is the role of monetary policy in the business cycle. If you ask, for example, about how people think about international trade, there really is no division into schools—almost everybody in the academic profession thinks pretty much the same way. It's not as if economists disagree about everything.

The other thing to say is that the freshwater/saltwater division, which was very strong 15 years ago, is substantially blurred now. The substantive difference between people from the two different schools has become a very subtle one, almost one of emphasis. Basically the traditionally saltwater school thought that interventionist policies—especially monetary policy—could and should be used to try to maintain full employment. In contrast, the freshwater people thought such policies were ineffective or counterproductive.

At this point, it is important to note that the saltwater school has been humbled quite a lot. It is not as aggressive about activist policies as it used to be. But the freshwater school has been humbled even more; there has been a great retreat from their strong case for the ineffectiveness of policy. These days it is very hard to tell the difference between the actual analysis of the two schools, although the words often differ.

**WEA: Do you identify yourself closely with one of these two schools?**

**Krugman:** Yes, I'm a saltwater type of guy. The freshwater arguments always seemed to me to be deductive arguments from what would be true if everybody in the economy were totally rational, but to be in fairly obvious conflict with what actually happens. And so, for example, I have always believed that central banks have tremendous power to cause recessions and recoveries, and if a theoretical argument tells me that it isn't so, I think there is something wrong with the theory—I'm not prepared to change my view of the world.

## Competitiveness and Economic Growth

**WEA: Let's turn now to issues relating to competitiveness and economic growth. You have argued that the "competitiveness" of a country is not a very useful concept, and that belief in such a concept can lead to the design of inappropriate policies. Why are countries not competitive, or uncompetitive, and what is the danger if policymakers think that they are?**

**Krugman:** The thing that has been so confusing about "competitiveness" is that most economists have simply either not noticed that everybody out there who isn't an economist thinks that its all about competitiveness, or they assume that they must mean something sophisticated by it—something that applies to cutting-edge economic theory.

It turns out that when people talk about competitiveness, overwhelmingly what they mean is that countries compete just like corporations, and that the United States and the European Union are like Coke and Pepsi. That if one of them does well it does so at the expense of the other, and that if you can't match the other country on productivity then you're in big trouble. But countries are not like corporations—certainly not like corporations competing for the same market—because countries, while they do sell goods that compete with each other, also provide markets for each other. This means that it's not at all a zero-sum game; it's not at all true that when Europe gains, the United States loses, or vice versa.

*When people talk about competitiveness, they mean that the United States and the European Union are like Coke and Pepsi.*

As a result, competitiveness is just a deeply misleading metaphor—which becomes obvious if you really think about it, if you seriously try to make sure that you have a story where the pieces fit together. It becomes obvious that the image of countries duelling it out for world markets is just not right—the countries may have to share the world markets but they also create the markets for each other.

And if you check the numbers you will discover that to the extent that there might be conflicts of interest among countries, they're really very small. The stories told by people who talk about competitiveness, when you try to put numbers to them, end up being of minimal significance.

The general danger is that if you've got a basically misguided view of the way the world works, you're going to end up producing misguided policies.

**WEA: You suggested that unlike in the case of Coke and Pepsi, for example, countries are not competing for the same market. I want to pursue that idea. In an article in the *Harvard Business Review*, you argued that third-world growth does not harm first-world prosperity. Does this mean, for example, that New Zealand is not made worse-off when Chile begins producing and exporting kiwi fruit on a large scale? Or that France has not been harmed with the development of the South African wine industry?**

*The squeezing out of inflation is an extremely costly process in terms of unemployment and forsaken output.*

**Krugman:** No. If two countries are both trying to export the same product, and one of them gets better at it, that does hurt the other country. When they managed to smuggle Brazilian rubber trees up to Malaysia, and the Malayan rubber exports began, it certainly did hurt the Brazilian economy. So it's not the case that export growth of one country can never hurt another. The question is whether that is the necessary or normal case. We know that economic growth in Country A can have either a positive or negative effect on Country B, depending on exactly what kind of growth is occurring. If another country gets good at making things we export, it hurts us; if it becomes good at making things we import, it helps us, because those imports become cheaper and our purchasing power rises.

The argument that in practice this has not been a serious issue for the advanced countries is an empirical one. You can measure these competitive impacts, these possible effects on international trade on your real income by looking at world prices, and you find out that there is basically nothing there. So it is certainly not true that countries can never be in competition; what is true is that they are not *necessarily* in competition. Success on the part of another country is at least as likely to help us as to hurt us, and in practice you can't really find anything there.

**WEA: Most economists, and I think you would include yourself in this group, believe that a country's overall standard of living is largely determined by its level of productivity. Are you concerned about the apparent slowdown in productivity growth in the US and other industrialised countries in the last two decades? Or do you see this as simply a return to more normal growth rates?**

**Krugman:** I think the right way to put it is that I would like to see higher productivity growth. Despite whole forests being levelled to print books about the productivity slowdown, we really don't know why it happened. We don't know why growth in the first post-war generation was exceptionally good or why growth in the second post-war generation is exceptionally bad. I actually don't believe that this is just a return to a historical norm—we're actually below the historical norm in the last 20 years, and there is something puzzling about it.

But we should think about it this way. It would be nice if we had 3% productivity growth per year instead of 1%, but we're not actually getting poorer. We are becoming more productive over time and therefore becoming richer. So we should not really view this as a crisis. If we have economic difficulties, they should not be insuperable, since we are in fact continuing to enhance our productivity, even if somewhat slowly. And we should find a way to deal with these difficulties given that reality, rather than say that we cannot cope unless we can have faster productivity growth.

**WEA: Let me continue with growth, but switch the focus over to East Asia. In your writings about the Asian Tigers, you have argued that their high rates of growth are not particularly puzzling. Does this mean there are no important lessons for us from the experience of the Asian Tigers?**

**Krugman:** Sure there are important lessons. It may still turn out that, while the growth to date has been surprisingly well explained by simply an increase in inputs, that is just the first stage. So, I don't want to call this a closed book. There are lessons such as the importance of a well-educated population, and the importance of strong incentives to save and invest.

I think there is also an important lesson for economics in the process of growth, which is maybe more of a professor's interest. When you look at some of the second wave of East Asian countries—especially Indonesia, China and Thailand—their growth is in a way closer to the kind of stories that economic theorists developed and used to tell 40 years ago than to the kind of stories that are currently popular among economists. There are some lessons about *how to think about* what it means to develop in this process.

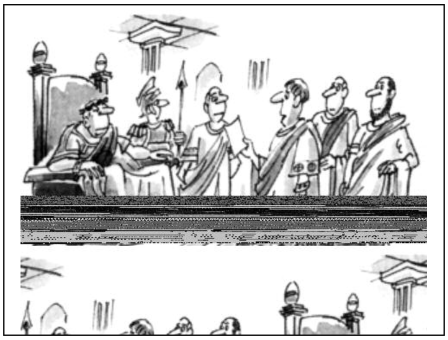
**WEA: You mentioned lessons regarding the incentives to save and invest. Do you think there are any policies that governments *should* enact to increase growth?**

**Krugman:** Sure. Let me speak about the United States. If we want to enhance growth, there are two obvious things to do. And even if we don't have an explicit goal of enhancing growth, there are two things that we should be doing anyway, and these will have the effect of enhancing growth. One is a thorough reform of basic education, which at the moment is not so much under-funded as makes bad use of the funds it has and does not teach basic literacy and numeracy in the way it should. There is every reason to think that such a reform would eventually lead to substantially greater growth. The other is that our fiscal system strongly discourages saving, and a reform of that system—including, above all, the proper funding of our retirement programmes—would mean a lot more saving, which would mean a lot more investment and would mean higher growth, although not necessarily at Asian rates.

## Mexico and After

**WEA: I would like to turn now to discuss Mexico. In one of your articles in *Foreign Affairs*, you essentially argued that Mexico's crisis was not surprising, given the Mexican policies in place at the time. But if collapses like Mexico's are actually predictable, based on their policies, why do they occur as "crises"?**

**Krugman:** Let me say that although a crisis in Mexico was predictable, the size of the crisis caught me by surprise. I expected Mexico to have a crisis similar to the currency crises that European countries had in 1992. In those cases, there was a run on the currency and a forced devaluation and the finance minister was



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*"It's true, Caesar. Rome is declining, but I expect it to pick up in the next quarter."*

forced to resign and 6 months later the economy was actually doing pretty well. Instead, what happened in Mexico was that the currency was devalued, the finance minister was forced to resign, and then there was a total panic and the economy went into a tailspin and GDP fell by 7%. This raises the question of why the markets didn't anticipate this and force the Mexican hand long before it got to that point, so that it would have been a "bump" but not a crisis. I think this is hard to explain except by pointing to the herd behaviour of investors, who were anxious to do what everyone else was doing and were unwilling to contemplate the idea that they were all wrong. So although many economists had been warning about looming problems for Mexico, well in advance of the actual attack on the peso, they were simply brushed off. And then all of a sudden, when it became too serious to ignore, the markets acted as if it was a complete surprise.

A second point I would raise is that the severity of the crisis seems to be a matter of self-fulfilling pessimism. That is, because markets were concerned that the whole Mexican reform process would collapse, people were unwilling to hold claims on Mexico unless offered very high interest rates, and because of the very high interest rates the Mexican economy went into a tailspin, which made people worry about the stability of the government, which in turn justified the initial concerns. So, roughly speaking, people in the marketplace were saying "I'm not willing to keep my money in Mexico unless offered an interest rate high enough to compensate me for the risk caused by the unwillingness of people (like me) to hold their money in Mexico without receiving a high interest rate."

**WEA: Do you see the Mexican events or crisis as signalling the need for some form of closer international cooperation?**

**Krugman:** It's not obvious what you can do about something like the Mexican crisis. I cannot imagine that an explicit monetary arrangement would have led the Mexicans to change their policies sooner than they did. If anything, having somebody trying to lecture the Mexicans on the need for change might have made them dig in their heels, but anyway, such a body would have been unwilling to say anything because they wouldn't want to have been accused of provoking the very crisis they were trying to prevent. We know that in fact the US Treasury department was very privately suggesting to the Mexicans that they had better change their policies, and it's hard to see what more you can do than that. So I don't really see any obvious way out. One thing that you can say is that some countries, including countries that we think of as being very free-market oriented (like Chile), have deliberately put restrictions on the kinds of hot-money flows that played such a large role in triggering the crisis.

**WEA: And do you think that such restrictions on the hot-money flows are a good idea?**

**Krugman:** Yes, I think they are a good idea. It was very clever of the Chileans—they have no restrictions on taking money out of the country, but they do have restrictions on bringing it in. This helps to cut their dependence on hot-money flows and I think they must now be congratulating themselves on having done that, as it has certainly worked to their advantage in recent years. But of course, you can only do that sort of thing—impose controls—when you are doing very well. When everyone is confident you should impose controls on bringing money in, rather than reacting when times are bad by imposing restrictions on taking it out, which only compounds the problem.

**WEA: Do you have any thoughts on recent suggestions for developing bankruptcy law for countries?**

**Krugman:** I think the problem with all such proposals is that ultimately countries cannot be made accountable to any rigid set of rules, the way corporations can, since they are sovereign states. And I'm not sure that I see any practical way to set up an explicit law like ones for companies. But I have to admit that my feel for the interaction of law and economics in this domain is not very good and so at the moment I don't have any solutions.

## The Drive for Price Stability

**WEA: Let me now switch your focus toward the issue of price stability. In a recent article in *The Economist* you argued against Senator Connie Mack's Economic Growth and Stability Act, which explicitly identifies price stability as a desirable goal for the United States. Why do you think the pursuit of zero inflation is undesirable?**

**Krugman:** There are three points here. First, it isn't worth much. There is very little theoretical reason to think that the difference between 3% inflation and price stability is worth very much to the economy, and there is zero evidence that low rates of inflation of the kind we now have do any appreciable harm.

Second, it's very expensive to get there. The squeezing out of inflation is an extremely costly process in terms of unemployment and forsaken output. The experience of the United States during the 1980s suggests that if we were to try and squeeze out the remaining inflation of our economy it might cost half a trillion dollars—a very large price to pay for basically an invisible gain.

Finally, although it is controversial, there is some reason to think that at very low rates of inflation, an attempt to push the inflation rate a bit lower has not only a temporary but a permanent cost in terms of higher unemployment. And I take that evidence very seriously. And even if we're not sure it's right, the risk that it *might* be correct seems large enough to militate against trying to get down to zero inflation.

**WEA: Let me pursue your third point about the possibility that there is a permanent unemployment cost to achieving zero inflation. Is this argument based on the view that people, meaning workers and consumers, are in some sense "stupid", not understanding the difference between real and nominal wages?**

**Krugman:** The key point is not necessarily that people don't understand the difference, it's that bargains are in fact struck in money terms. And thus an actual cut in wages *does* mean something different from a wage increase that simply fails to keep up with inflation. I don't necessarily think that you have to think that people are stupid; if you think about bargaining situations in which people are looking for some kind of focal point, where the wage actually has to be set in money terms, there is a special significance to zero. I don't think that people have to be unaware of the difference between real and nominal to nonetheless regard a nominal wage cut as something they are especially reluctant to accept. I don't even think that professors of economics, when actually dealing with university administrations, are likely to treat an actual pay cut as the same thing as a wage increase that doesn't keep up with inflation. It's not requiring people to be idiots—it's just looking at it a bit realistically.

*The countries on the outside of trading blocks are the ones that get hurt.*

**WEA: You mentioned a special significance to zero, and I'd like to follow up on this. In your view, how could the Fed avoid the pursuit of zero inflation, while at the same time maintaining credibility in its promises to keep inflation from returning to high levels? I'm wondering if there isn't something special about an inflation target of zero rather than, for example, 3%.**

**Krugman:** That's an interesting point. There are people who will vehemently deny the proposition that wages are sticky against actual negative wage changes on the grounds that people are too smart for that, but will vehemently insist that we must have a zero inflation target because central bankers are too stupid. These people will insist that zero cannot be an important strategic number in the bargain between workers and employers but that it is a crucial number in the bargain between central bankers and bond holders. But it seems to me that you can't have it both ways. The empirical fact is that western central banks, for an extended period now, have been maintaining inflation rates that are in the 1% to 4% range, and that those rates have not shown any tendency to take off. Nor have they—with certain exceptions, like Canada—been ground steadily down toward zero. So we have actually been living under a regime where central banks appear to act as if they have a low but non-zero inflation target, and have been maintaining it.

**WEA: Your policy recommendation from *The Economist* article is not to pursue zero inflation, but instead to pursue low but positive inflation. Is that policy recommendation specific to the US, or does the same basic principle apply to other countries? Do you think the European countries, for example, with their more rigid labour markets, would be more or less vulnerable to these permanent costs of achieving zero inflation?**

**Krugman:** It is a positive recommendation all the way around. Rigidity is a funny word; people use it to mean a bunch of different things, and I don't think that there is any obvious difference in this particular sort of rigidity between Europe and the United States. I would like to see a 3% to 4% inflation target all the way around the OECD.

## Trade Policy

**WEA: Let's turn now to trade policy. In the mid-1980s there was an extensive academic literature arguing that in certain situations free trade was not optimal. Do you think this "strategic trade" literature has had an impact on the way trade policy is conducted?**

**Krugman:** Not really; or if it has, it has only been as an excuse for the trade policies rather than as a basis for them. The truth is that most of the people who invoke strategic-trade theory as a basis for actual policies don't really understand the theory. They think of it as just a fancy version of crude notions of international competition. And on the other side, confronted with these interesting ideas, the economists did what they were supposed to do in the second half of the 1980s, which was to work very hard on trying to quantify them. The overwhelming result of that effort has been to downplay the possible gains from strategic-trade policies. So from the point of view of researchers it looks like an interesting idea that turned out not to be an important one for actual policies.

**WEA: You were an active participant in that 1980s strategic-trade literature. Yet, in *Peddling Prosperity* and elsewhere you have criticised the strategic traders in Washington.**

**Krugman:** Actually, the people who I was criticising there are not people who draw on strategic-trade theory as it was formulated in the 1980s; the people I criticised are the competitiveness gang. These are the people that I have referred to as "pop internationalists". They don't really base their positions on the Brander-Spencer model or anything like that; instead the basis is crude notions about de-industrialisation and countries competing like corporations. Those are the people I was criticising.

**WEA: There might be cynics out there who would detect *mea culpa* in your comments when you criticise the strategic traders. Do you have any mixed feelings about your involvement in that literature ten years ago?**

**Krugman:** I don't think I feel guilty. There were two movements that arose in parallel. One was the new trade theory, which had strategic-trade policy as one of its possible implications. The other was the "competitiveness" movement which seems as if it should have had something to do with strategic-trade policy, but it actually didn't. If you look, for example, at Lester Thurow's *Head to Head,* there is no mention of imperfect competition or economies of scale. There is just no hint whatsoever that his views were shaped by the strategic traders.

In some sense, the fact that there was strategic-trade theory out there helped to lend a little bit of undeserved credibility to the competitiveness arguments. I don't know how that could have been avoided. I just think that it's disturbing; but it won't be the first or last time that an interesting economic theory will be mis-applied. The real sin would have been if any of the strategic-trade theorists had been willing to take up the implicit job offer that was out there, which was to serve as an intellectual mascot of the competitiveness types. And the important point is that none of the innovators did that, despite the fact that the job would have paid very well. In that sense I think it was actually unusually good behaviour by Jim Brander, Barbara Spencer, me and all the other people who were involved.

**WEA: Economists make the distinction between trade creation and trade diversion that results when trading blocks are formed. Are you concerned about the parcelling up of the world into trade blocks, or do you see this process as the only practical political route toward the ultimate objective?**

**Krugman:** I think the trading block movement has been overrated. The time when people started really talking about the world being parcelled up into trading blocks was the late 1980s, when the Uruguay Round seemed to be collapsing, NAFTA and European deals were along, and lots of people talked about the emerging yen block. There was this story that the world was forming into three big trading blocks, and that this would replace the global system. It hasn't turned out that way. It turned out that these regional trading blocks are every bit as difficult to achieve politically as the global ones. Moreover, the global trade negotiations did not fail. So in a way it's yesterday's issue. It was a false political forecast which I have to admit I shared in. I don't claim any special political wisdom and I was wrong. I fell for the conventional wisdom on that one.

**WEA: I take it from your answer that you don't see these trading blocks as a threat to the WTO and its mandate?**

**Krugman:** No. There are lots of threats to the WTO, but I don't think that's the big one. I would make one point, though. There are a lot of special deals. Consider the various trade agreements in Latin America. If you take a map of the region and draw a line between countries for all the special deals, it ends up looking like a bowl of spaghetti. Without question, there is a lot of trade diversion being created by these deals. If you asked "how much harm is being done as a percentage of GDP?" you wouldn't get very excited about it. But there is a lot of sloppy and probably mildly damaging policy being done by the special deals between various countries.

**WEA: If trading blocks continue to form, or to expand, who are likely to be the losers? Are developing countries particularly at risk?**

**Krugman:** The countries on the outside are the ones that get hurt. And these can be countries of any kind—countries that don't have an "in". It is typically developing countries that get hurt but the countries that are on the outs for whatever reason, geography or politics, would be in difficulty. A seriously trading-blocked world would be a bad thing for Singapore—because it's difficult to see where they fit. It would also be a bad thing for New Zealand, which is probably far enough away from everybody that it would have a hard time becoming a natural member of any of these blocks.

## European Monetary Union

**WEA: Let me switch topics over to Europe. Do you think the drive toward a single currency in Europe will benefit Europeans, and if so, what is the gain? Is it largely political or largely economic, or is it both?**

**Krugman:** I actually think that EMU is very likely a bad thing from the point of view of the European economy. I have in mind here the usual litany of reasons why Europe is not really suited for a single currency, at least not yet. Politically, if it works, it will help to unify Europe, which is a good thing because I think the world needs large and culturally diverse democracies which help stabilise it. But that is political, not economic. The problem is that the way it seems to be going, the whole project seems to be generating more acrimony than unity. I think if you could go back to before the Maastricht Treaty and stop the whole thing from coming up, it probably would be a good thing. But of course right now it's very hard to figure out how to stop it without causing even worse damage.

**WEA: Is your view against it on economic grounds based largely on the view that the European countries simply do not constitute an optimal currency area, combined with the usual arguments in defence of flexible exchanges rates?**

**Krugman:** Yes. If you compare European countries with the United States, which is a similar sized economic area that is a nicely functioning single currency area, what pops up are not the similarities but the differences. The European economy is simply not integrated in the way the US economy is, and it doesn't look like it will be for a long time.

**WEA: Do you think the EMU has any significant implications for North America? Should North America really care much about whether the EMU succeeds or fails?**

**Krugman:** I think only politically. If it fails then this will damage relationships among American allies. But I can't see that it has any important economic implications for us one way or the other.

**WEA: What are your thoughts on what might be viewed as an increasing trend towards US extraterritoriality in its trade policy? I am thinking specifically about current US policy concerning Cuba, Libya, and Iran.**

**Krugman:** There are several things that are happening, all of which are indicators that the United States is feeling some strain in its role as world leader. Most of the extraterritoriality we are seeing right now comes not from a US determination to boss other countries around, but rather from a primacy of domestic politics over international considerations. The US used to have foreign policy that was run as a more-or-less bipartisan thing by an establishment. Now we have foreign policy as an extension of very bitter internal politics. It's not that the US has become more determined to impose its will on the rest of the world. In fact, it is almost the opposite—the United States no longer feels that it needs to be concerned about the rest of the world, and American politicians have become willing to do whatever is necessary to win the next election.

**WEA: So if we weren't in the middle of a US election campaign right now, we would not be seeing these current US policies?**

**Krugman:** This whole business is essentially an attempt by the Republicans to lay a trap for President Clinton by making very unreasonable demands on what US foreign policy should be which, as a sitting President acting responsibly, he ought to reject. This would then enable the Republicans to make political hay out of it. So, quite sensibly, he has decided not to give them that opportunity, and to be just as irresponsible in office as they are out of it.

## Economists in the Policy Process

**WEA: We spoke earlier of the various schools of thought within the academic economics profession. Do you think the split between advocates of interventionist policies and advocates of *laissez faire* has affected the way that academic economists are perceived by policymakers?**

**Krugman:** Actually, I don't think there is a big split among economists on that. I think the perceived differences of opinion among economists are much wider than the real ones, largely because there is no licencing requirement for economists. If you watch the talk shows where they have economists representing rival positions, more often than not neither of the people is a professional economist, or if they are professional economists they are not ones well-regarded by their peers. So you get a supply-sider debating someone who thinks that import restrictions are the only answer, and people watching the debate are led to believe that economists can't agree on anything. When in fact, both of those positions are really outside the range that the profession takes seriously.

I actually think that the economics profession, by and large, gets a bum rap. There was a period basically from 1973 to 1980 when economists were taken aback by stagflation and the profession was really thrashing around. The fact that the big disputes at that time have been largely settled and that a 1978 textbook on macroeconomics still looks pretty good today has been missed. So a fairly brief period of confusion at a strategic time has led to the continuing popular perception that economists can't agree on anything. This is a perception sustained by people who have an interest in that perception because they themselves are basically trying to take over the role of providing economic advice.

**WEA: The issue of minimum wages has clearly been a hot topic in the US and in other countries recently. Do you see that issue as one where the profession has been more or less in agreement?**

**Krugman:** Well, let me now be critical of my colleagues. The minimum-wage issue is one in which there is reasonable room for dispute. As I understand it, the evidence basically points to small negative effects on employment, but there is also some anomalous stuff. A fairly large number of economists have come out endorsing an increase in the minimum wage, despite the fact that it is questionable economics, and there is a lot of politics in this. I have been a bit dismayed at the willingness of my colleagues to basically play politics with their reputations. I didn't sign the letters calling for a minimum-wage increase, despite the fact that I'm usually politically on "that side", because I don't think the economics supports it. But a lot of people did. A fairly large number of people of whom I thought better have also come out endorsing Bob Dole's economic plan. I think I understand why, politically, they felt under pressure to to that, but I wish I could repeat to them Bob Dole's drug slogan: "Just don't do it".

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**WEA: What do you think has led these economists, whom you respect, to come out *en masse* and support a policy for which there is so little supporting evidence? What is their motivation?**

**Krugman:** Economists are human beings, and they are political beings. Right now if you are a Democratic-oriented person who happens to be an economist, there are a lot of friends of yours, or friends of friends, who are actually in the Clinton administration. So a conspicuous refusal to endorse something that they are doing is a slap in the face of people you would like to get along with for a few decades to come. If you are a Republican-oriented person who happens to be an economist, you may actually be a friend of Bob Dole's, or have connections with the inner workings of the Republicans. Bob Dole has already announced that his economic plan involves large tax cuts funded by favourable assumptions about economic growth and unspecified spending cuts. If you refuse to sign a letter endorsing the policies, people will notice that your name isn't there, ask why, and you will have burned your bridges.

**WEA: Have you gone out of your way to distance yourself from both sides, or perhaps all sides?**

**Krugman:** Yes. When contacted by the Democrats (the Republicans obviously are not going to come after me), I have made it clear that it is not in my interest, or in theirs, for me to be in any sense a part of their machine. I will continue to be harshly critical even though I very much hope that Bill Clinton wins this election.

**WEA: Are you optimistic about the influence that academic economists can have in the public policy process?**

**Krugman:** Yes, I think so. I think there is quite a lot of good that is done by academic economists—often on smaller issues, but they add up so that over time it can be quite a big thing. In particular, I think if academic economists realise the kind of influence they can have, and are prepared to think about how to communicate and how to make that influence felt, they can do quite a lot of good. In the last couple of years a lot of people have realised, including myself, that forums like *Foreign Affairs* and *Foreign Policy*, for example, need not be left to the ideologues, which to a large extent they were until recently. That has done a lot to improve the quality of discussion among influential people.

**WEA: Well, I hope you continue to take an active part in educating the public. Thank you very much.** ◆