

World Knowledge Forum 2012

Wednesday, October 10, 2012: Paul Krugman: How Can We End This Depression

On Wednesday, October, 10th, 2012 Professor Paul Krugman, Nobel Prize winning Economist and New York Times Columnist, delivered a lecture detailing the dire economic situations in the United States and Europe, and explained how the global depression could be solved.

"It is not at all a mysterious crisis. The solutions are clear," Dr. Krugman said. He analyzed the problems in the United States, explaining that the current U.S. economy was indeed in the midst of a Depression, but that this current crisis is not mysterious.

"This is a natural rhythm of economic affairs," Dr. Krugman said. "Debt is like heroin," he continued, stressing how the need for debt is always present, but that over time, the sting from such debt and the issues surrounding it dulls.

He detailed how the debt to household income in the U.S. has steadily risen since the end of WWII, but how in recent years, leveraging changed.

"When you are leveraging up, some people are borrowing a lot of money, which tends to increase overall demand, which could be inflationary, and could be a big problem," Dr. Krugman said, as he analyzed the U.S.'s debt issues.

However, he noted that recently things have changed.

"This turned into something much more rampant in the last decade," he said.

He reiterated that the solutions are clear, but rather difficult to implement, stressing the problems with Central Banks and monetary policy. He advocated for a more aggressive fiscal policy, focused on increasing federal stimulus to local governments.

"If everybody tries to spend less at the same time, all that happens is that all of our incomes go down," he said. Dr. Krugman continued by advocating a number of reasons to justify a shift in monetary policy. However, he acknowledged that this will not be easy due to the current political sphere.

"The problem is political. The economics are very simple and easy," Dr. Krugman said. He acknowledged that the current politically charged climate makes for difficult political solutions and therefore makes the economic solutions "almost impossible in an election year."

Dr. Krugman also focused on Europe, saying, "At an aggregate level, Europe looks a lot like the United States. Increase in debt is similar, maybe a bit smaller, housing bubbles were large, but its more or less comparable." However, he also pointed out what made the two economies different.

"Europe's problem is that it is not a country," Dr. Krugman said. He compared Spain's housing bubble to that of Florida during the recent U.S. crisis. Contrasting the two areas, he noted that Florida had the support of the U.S. government to provide it stimulus, while Spain does not have such support.

He attacked the ideas of fiscal austerity in Europe as "ineffectual" and of having no real impact on improving failing economies like Spain and Greece.

He believed that strong core European economies gave a false sense of security to smaller economies like Spain and Ireland. He said that since Germany has to loan money to its EU partners, it is forcing austerity measures out of spite, not practicality.

"I'm of the view that the Euro was a mistake," Dr. Krugman said, stating that if he could go back to 1992, he would tell the EU not to adopt a single currency.

"If the Euro fails, it will delegitimize the European project," Dr. Krugman said. However, he noted the historical importance of Europe, and that as a social, democratic and economic experiment, failure could not happen.

Dr. Krugman concluded his comments by briefly touching on China's mysterious economic situation.

"My view of China's economy changes with what I had to eat for breakfast," he said in a lighthearted moment. He noted the lack of credible information coming out of the communist regime, and that if all economic numbers were "science fiction," then China's were especially unreliable.

However, on the dire economic situations in the U.S. and Europe, Dr. Krugman reiterated the need to realize how simple the solutions are, and how fiscal policy can provide the means for that formula.