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HOW TO SLAY ECONOMIC ZOMBIES

A CONVERSATION WITH PAUL KRUGMAN

CARDIFF GARCIA: Paul Krugman, welcome to the New Bazaar.

PAUL KRUGMAN: Hi there.

CARDIFF: So I thought I'd start with this. I came across a quote of yours from not quite a decade ago, where you were talking about the way you like to have fun on social media, and you said, “Dance like no one's watching, tweet like no one's reading.” And I wanted to ask, is that still your approach to social media, and is there something more to it? Is that your approach to writing columns and books and speeches and the like?

PAUL: Well, what I think I meant was, “Don't try to sound impressive, don't worry about being dignified, and say what you think.” That's kind of important — really eminent economists, when they write for a broader audience, or sometimes even for their own colleagues, are so wound up with “I am important and I have something important to say” instead of just sort of like, “Here's something fun, here's something interesting or something you should know.”

But I guess the other thing is that… I don't really mean “Tweet as if no one's reading,” I really mean, think about how it's going to be received, but not in terms of how it affects your dignity or your stature, but just: Are people going to get it?

And that's a really, really hard thing to do. So it’s, yeah, I'm being amazingly inarticulate considering that we're talking about communicating. But look, I spend a lot of time thinking about how I'm going to get an idea across. I did that even in academic papers. And it's really important to do that.

And then often, at least it feels to me, when you're writing, actually even when you're writing an academic paper, but especially if you're writing for non-economists, there's this kind of sense that you have to catch the rhythm. If I know how to get into it, if I can get the first three sentences rolling, then the thing will come through.

And I can't give you a simple rule on that, but you know when it's happening, when somehow the rhythm is flowing.

CARDIFF: Yeah. Kind of famously, you've always said that your style is very closely intertwined with the substance — that when you write, and even when you do research, you like to take a real world scenario and impose a simple model. You don't get too much into theory, don't get too much into complicated econometrics, that kind of thing.

PAUL: Yeah, not everybody does that kind of research. And, you know, my specialty always was: there's something in the world that seems puzzling, and here's maybe a way to think about it, and let's come up with the simplest possible model with the fewest moving parts that just gets at it.

And that happens to carry over pretty well, in a fundamental sense, to writing about economics for normal people. Because again, simplify, strip it down. Don't do violence to the reality, don't say anything that's wrong. But strip away every piece of wasted verbiage. So get it down to what people really need to know.

CARDIFF: Another quote of yours that I came across recently, was that "interesting ideas have very little to do with interesting life experiences". So where do interesting ideas come from, for you at least?

PAUL: Well, that's a good… and that was self justifying, right? Because I've had a very boring life — suburban kid, went to a suburban high school and went to college, no fun sled trips across Alaska or anything like that. So that was justifying myself.

I actually was thinking about this in advance. Certainly academically, for me, everything I did that I regard as still worth reading years later was either that there was some new technique that either I was stealing from somebody or, possibly, in a few cases, came up with myself, that made it possible to talk about stuff you couldn't really talk about before. Or there was just something really puzzling in the real world and trying to really struggle to say, “how can this be happening?”

And so I can give you examples of both of those. You know, a lot of the stuff I did on trade was, well, we had these new models of monopolistic competition, and there was a hammer and I found some interesting nails to hit with it. And on the other hand, some of the stuff I did in macro was: there's Japan, when all is said and done, it's a lot like us, it's a big, rich country with policymakers who are not complete idiots. How can they be stuck in deflation? And so, for either one of those…

And then always try to come up with the minimalist model that makes sense of it.

CARDIFF: Which of the following statements do you think applies most to your approach to writing and to your underlying motivation? You write to persuade, you write to provoke, you write for your own mental clarity, you write to have fun.

PAUL: Oh gosh, all of them [chuckles]. If you write to persuade, I mean, actually even the academic stuff, hopefully you're at least convincing some people that you're on the right track. Provocation is something that's a technique: I'm not a shock jock, I don't particularly want people to be outraged, but on the other hand, that's kind of a signal — I think I did at some point say about writing newspaper columns, that if you haven't outraged a bunch of people, if you haven't made anybody angry, you're wasting your time. It had better be somehow shocking.

There were too many criteria there, but look, if you're not having fun, then it shows.

CARDIFF: Yeah, I guess I ask because I'm kind of curious to know how conscious you are of the narrative about who you're battling at any point in time. So in the 90s, you were one of the all time Hall of Fame punchers of hippies, right? In the 2000s, you were kind of punching right – George W. Bush tax cuts, that kind of thing.

PAUL: Yeah.

CARDIFF: In the last 10 to 15 years, I'd say it's a lot of arguing against Trumpian-style populism.

PAUL: Yeah. I mean, you go after the people that you think are wrong who matter. So I'm not spending a lot of time going after people who think that this inflationary episode is all price-gouging. I'm not a zero price-gouging person, but I don't think that there's any way to make that more than a small fraction of the story. But I don't spend a lot of time on it because the left wing of the Democratic Party just doesn't actually have the chance to do very much harm.

And in fact, some people you might have thought were kind of on the extreme end have turned out to be pretty smart, sensible people who try to get stuff done — someone like AOC. So you go after where the power was.

Now I think when I was doing what you're calling "hippie punching", that was the early 90s. It was not obvious that we weren't going to go for a much more sort of "industrial policy can solve all our problems", and that we need to be more like Japan. And certainly Bill Clinton had some affection for that point of view, and it seemed worth arguing against.

Now, at this point, I wouldn't quite say that I regret it, but it was a lot less important to argue against those ideas. Actually, I had a conversation some years back, but Bob Kutner was one of the people I argued with at the time, and he and I were together at a meeting, and we agreed, I think on stage, that that while we were fighting about industrial policy, Sauron was gathering his forces in Mordor. [chuckles] And that was much more important than anything we were arguing about.

CARDIFF: I think "Paul Krugman endorses AOC" might be the headline of this conversation [chuckles].

PAUL: Can I just say that when people say, "oh she's a crazy person, she says the top marginal tax rate should be 70 percent." Well, she got that from Joe Stiglitz, and he's just reporting the results of the Diamond-Saez paper on optimal taxation [chuckles]. I mean, this is not crazy stuff.

CARDIFF: Let's talk about the economy now. You wrote a really great essay for EIG in response to our State of the American Worker project, and one thing you wrote that caught me by surprise, actually, was that you are pessimistic about the possibility that policy can improve productivity growth.

And here's what you wrote:

> "The answer is that for the most part we don't know how to do that. It's extremely hard to come up with policies that we would expect to have more than a marginal impact on productivity growth."

Why so pessimistic, given what we just heard earlier today from [economist] Ben Jones on the fact that public R&D can work; there's things like high skilled immigration, a lot of evidence that it can goose innovation and entrepreneurship, things of that nature. Why so down on the possibility?

PAUL: I mean, most of the things… now certainly immigration, if you expand the labor force, then you can get faster growth, but not necessarily productivity growth, or not much in that direction.

CARDIFF: High-skilled immigration though.

PAUL: Well alright, but it's still difficult, really, even with that, to get numbers that are going to move per capita GDP by very much. And things like returns on infrastructure, we don't really know.

But if you look at a chart of U.S. potential GDP growth over the past 50 years — we had some pretty big political swings in there, big changes in tax policy. If you didn't know that there have been changes of administration, changes in tax policy, you would never guess. It's pretty much just a flat line. The reason is that economic growth is largely driven by the Solow Residual. And who knows how to make that change very much.

If someone says "I have a policy that could raise potential GDP growth by a quarter of a percentage point," I'd say, "okay, I could possibly believe that, show me the details." If somebody says they could raise it by one percentage point, I think that's crazy. Nobody knows how to do that.

My favorite Bob Solow quote, although there are so many of his… he was actually talking about Britain lagging behind post World War II, but it applies to lots of things, he said, "every attempt to explain this ends up in a blaze of amateur sociology." That, in the end, we really just don't know very much about why countries have different rates of economic growth. We still don't know why productivity slowed down in the early 70s. We kind of know why it had a bump for a while around IT, mid 90s to mid 2000s.

But ultimately, talking about innovations, there's a big mystery now. It feels like we've had a lot of technological change these past 16, 17 years, and yet, if we believe our numbers, which maybe we shouldn't, but if we believe our numbers, total factor productivity growth has been really pretty lousy for that whole period.

CARDIFF: Optimism or pessimism that that's going to continue — that we will break out of the great stagnation given the variety of other things that have been invented in the last few years, or developed further?

PAUL: I can say with high confidence that I have no idea. I mean I really don't know.

AI is… Of course, it isn't really AI, although maybe it becomes AI, but whatever this thing is, Large Language Models, I think the jury is still completely out on what that's going to do to economic growth. I mean, the big thing for the last few years, you might have thought if you weren't paying attention, you might have thought that with all of this new technology — the U.S. economy has definitely outperformed post-Covid, we're above pre pandemic forecasts, which is really amazing — but if you start to look into it, it's mostly because of an unexpected surge in immigration. And so with the technological stuff, we really don't know.

So my long-run pessimism… I've been around for a while. So there, back in the 60s, there was all this futurism. There were people making long run projections, and Herman Kahn had this thing called the Year 2000, which was about what the world would look like in this far distant year of 2000. And there were like a hundred predicted innovations, and he got almost all of the ones that actually did happen. There's stuff in there that is recognizably smartphones. There are things that recognizably are pretty much all of the sexy technologies that have come along since the 1960s. There's also like 60 technologies he predicted that didn't come to pass.

On the whole, though, we have a much more pokey backwards world than what people in the 1960s thought we were going to be even 10, 15 years ago.

CARDIFF: You and a lot of the people in this room, actually, and I spent a lot of time in the 2010s trying to convince the government writing about how we need to spend more money to fight the sluggish recovery, to make it a more robust recovery, to get back to full employment. Same thing with arguing that the Fed could do more during that time. It seems like we might have learned that lesson, but I'm kind of curious to know if you agree and if you think that economists have also learned that lesson.

PAUL: I think…Well, "What do you mean we, White man?" [chuckles]. I mean, who are "we"? I think a lot of economists have. I think the fact that we ended up with low unemployment and low inflation, and it turned out that the limits were much less, and a fair bit of evidence for some hysteresis that running the economy at low pressure actually does impede — despite what I've been saying about the immovability of potential growth — that you do actually pay a price in terms of long term damage if you don't fully utilize the economy's resources.

U.S. policy, I think at this point we can now say that the U.S. — the Biden administration — was determined not to repeat what it saw as the mistakes of the post GFC of doing too little and allowing a depressed economy to linger. And at this point that turned out okay. We got good growth. We had a temporary surge in inflation, but we're back. So they have effectively learned that lesson.

Has Germany learned those lessons? I think we can say pretty effectively say that they have not. So I think at least some policymakers have picked it up. At least some economists have, but not everyone.

CARDIFF: I know you're on team long transitory, the idea that the inflation, that temporary surge in inflation you just referenced, was primarily caused by problems with supply chains, and once those were undone, that inflation started coming down, that the policy was sort of less influential there.

My question is, and I guess the flip side to that prior question, is maybe we over-learned the lesson. Because that temporary surge in inflation was incredibly unpopular. And something that a lot of people worry about, that I worry about, is that the next time we have a situation where we need to get back to full employment in a recession, people are going to be a little bit more hesitant about it because they remember that inflation.

PAUL: Yeah, now this is a whole story. I mean we had that big surge in inflation, which was incredibly unpopular. It was also something that happened everywhere across the advanced world. So it's almost eerie how if you use a common measure, if you use HICP or something, how much cumulative inflation since the beginning of the pandemic is the same everywhere — which suggests that it can't have been too much the result of U.S. fiscal policy, but maybe a little bit.

The economics, again, have worked out fine. We got a sort of a one time jump in the price level, which was probably mostly supply chain issues rather than fiscal policy, maybe fiscal contributed a bit, but the long term damage that some people were predicting never materialized.

But the politics may make future politicians leary of doing the right thing. They may say, “oh, look, well, I think a lot is going to depend on what happens in November,” right?

If Democrats hold on, history will be written by the victors and they'll say this was good policy and we'll have an aggressive response the next time we have something like this.

But if not, people will say, well, what doomed them was that inflation. And so, you can give me all the arguments you'd like about how it's okay to have a one time rise in the price level if that buys you a quick return to full employment. But, hey, what good does that do you if you end up facing electoral defeat?

CARDIFF: If you could design foreign economic policy towards China, if you were put in charge of it, what would be your preferred suite of policies? Would you want to just continue the protectionism on national security issues, or would you go full decoupling? What would you want to do?

PAUL: No I would actually, if I could — we have a bunch of legacy Trump tariffs on China that don't serve any strategic purpose. I would scrap those. Except I understand — there are too many old students and friends in this administration, so I may have trouble being fully objective — but I understand that nobody wants to be accused of being soft on China. And so, those tariffs stay there, not because they make sense. Full decoupling? If we're getting a lot of our toys and footwear from China, I don't think that creates any particular strategic vulnerability.

But I do think it makes sense, given geopolitics, to be pretty serious about advanced technology, to a certain extent industrial capacity. I think one of the really scary things that we've learned is that the age of large scale conventional wars where your ability to churn out weapons actually matters has not passed.

So, what we're doing — I mean, it's really one of those funny things — the Biden administration, or I guess we should say now, Biden-Harris administration, has been incredibly aggressive on the technology front against China. I mean, we are effectively trying to kneecap another country's technological progress.

That's a hell of a policy, which I think I support, but it does make me extremely nervous to see us doing it. I guess I would be doing it too, but not without some serious qualms.

CARDIFF: For many decades, until roughly the last decade, trade was kind of a boring topic, right? Like tariffs and things had fallen so much that even on occasion when we do something like raise tariffs on steel or whatever, it just wasn't that big of a deal.

But now it's quite a big deal. If you look at the Trump plans and also if you look at the fact that for politicians across the board, it's just not fashionable right now to defend the liberal trading order, and the gains that that brought about. Are you worried that some of the stuff there that actually is very much worth preserving will be lost because it's just not as cool to talk about it.

PAUL: Again, it enormously depends on who's in charge. Nothing that the current administration in the United States is doing is likely to bust up the whole — we have a world trading system, which was something basically the U.S. invented, where with reciprocal tariff reductions, which keeps the world markets fairly open for, most importantly for poor countries that need to export — the U.S. can handle a trade war, the European Union can handle one, but Bangladesh cannot. And nothing that is on the plate right now is going to really disrupt that.

But of course, 20 percent tariffs across the board, it’s not just that it's a big deal if we do it, but that everyone else will do it as well. So that would really bust it up, and that could be very serious.

I'm not sure the loss of intellectual fashionability is all that important. And there comes a… okay, stories of my life: If you’re at an Oxford dinner party, and you get a phone call, it's extremely rude to step out of the dinner to take the phone call *unless the caller happens to be the President of the United States* — which was Barack Obama complaining about my anti-TPP column. [Laughing]

CARDIFF: Tell us more about that phone call.

PAUL: Well, no, what's interesting is, it was all geopolitics, that geopolitically we need to do this, and my argument actually was also really not about economics, it was about domestic politics, saying that given the threats that we face on the home front, we cannot afford to spend political capital on this. This is an agenda for an earlier, saner time. And —

CARDIFF: Would you do it now? Would you do TPP now as a way of trading more with our friends and isolating China?

PAUL: Well, it would be hard to sell. I mean, I think it's probably just — it actually wasn't great economics. Turns out the TPP, like a lot of what we call free trade agreements, was really more about intellectual property than about trade. And it's not the economics on that ain't so great.

But also — I mean, trying to make deals, friendshoring one way or another, makes sense — I think TPP was probably too broad and got too much baggage associated with it.

And you also need to remember… Strategists in Washington may understand that sourcing from Vietnam is not the same as sourcing from China. The general public probably doesn't.

And so, it's certainly not a bad idea, and I think we really certainly want to be trying to find ways to keep as much globalization with countries that either share our values or at any rate are not a geopolitical threat as we can. But that one was all couched in the wrong rhetoric, I think. The problem was that TPP as it was, it was trying to do old-fashioned Davos globalism five years too late in the political cycle.

CARDIFF: Your Nobel Prize wasn't just for trade theory, it was also for economic geography. So very brief background for our listeners: You looked at the idea that industrial clusters not only tend to form, but also tend to be self-sustaining. So this could be, I guess, groups of countries that trade together, or it could be inside the U.S., you know, the Northeast corridor. I'm kind of curious to know if you think that agglomeration economies are different now or will start to be different because of things like work from home, communications technologies, and the dematerialization of the global economy, where a smaller share is going to manufacturing, I think for the last decade or so.

PAUL: Oh, it's more than that. I mean the idea that agglomeration economies of one form or another exist is obviously not new, although I was able to make it a little bit more formalized. In a way I thought that the key addition of the new economic geography — so I have now two things that I was associated with, the new trade theory, which people now call the old new trade theory [chuckles], and the new economic geography, which people now call the old new economic geography — but the idea that there's always a tension.

There's forces pulling things together and forces pulling them apart. And the balance can tip one way or another. In fact, over the past 200 years, it has tipped first one way, then the other, then back again.

And the modern forms of agglomeration are different from the ones that prevailed in the 19th century. I like to say that the models that I was writing down 30 years ago had this kind of steampunk feel. They all kind of were very much focused on manufacturing and on industrial clusters, and we all lavished attention on these great stories — like the detachable collar and cuff industry of Troy, New York, and that sort of thing. And which mostly have gone away in the United States, although not totally — they do exist to some extent even in manufacturing, but these days if you really want to find old style industrial clusters, you go to China.

But there are other forms of agglomeration, and in fact we had a big tipping point. It was funny, when I wrote this stuff down as models, which is, you know, circa 1990, it did have this kind of backward-looking steampunk feel. It was about the rise of the industrial belt and the manufacturing belt in the United States, and that sort of thing. And it seemed like this was all kind of old history, and clearly the manufacturing belt had been gradually dissolving, had spread out.

But unbeknownst to us, but now clear in the data: Circa 1980, the centripetal as opposed to centrifugal, the stuff pulling stuff together, actually the balance swung in their favor.

So if you actually look at — there's a variety of measures — but basically, in the United States, there was a lot of regional convergence, convergence in incomes, convergence in basically regions becoming more similar, from the 1920s up until about 1980.

Then in 1980, they started pulling apart again, and you started to see metropolitan areas with highly educated workforces pulling in even more educated people, pulling in even more of the information economy — and stranding regions that didn't have those preconditions.

And so if you go back, circa 1980, Kansas had something like — I'm partially making up these numbers, pulling them out of thin air or someplace lower — but you know, Kansas looked like it was not much poorer than New York, and actually, by other social indicators, had comparable life expectancy. And now it's just, oof.

And actually, for prep for a future conference, I've been looking at just kind of within New York State, and looking at greater Buffalo versus greater New York City. Buffalo was not all that poor or backward compared to New York City in 1980, and now it's vastly poorer.

So the clusters are subtler now, and if you do try to do measures of economic concentration, they'd still look lower, but I suspect that that's a statistical artifact. That the way we collect data is designed basically for an early 20th century economy, and we're not catching the difference between venture capital and private equity, which are actually kind of in different places, and lots of other stuff.

So we're back in a world where we have these extremely localized clusters. And modern communication technologies, Zoom, work from home, they make it possible to do some things without being in the place, but they're not a full substitute. And in a rich society other things tend to matter. Particularly for high skill, high pay workers, you need amenities. High tech workers are not going to move to someplace in the middle of the country, even if they have excellent internet access, because where are the good restaurants? Where are the live concerts? So in some ways the fact that we're rich enough that people can make decisions on that basis matter. So I think we're in some ways back to the kind of unequalizing development that we had in the late 19th century.

CARDIFF: There's a fair amount of place-based policy in some of the recent legislation that's been passed the last few years. Based on what you just said then, are you sort of pessimistic that it's going to work in reviving some parts of the country or establish new industrial centers in some of these places that have been struggling?

PAUL: I think it can be mitigating, is the way to put it. The history of place-based policies is not great. I mean, the Germans have spent vast sums trying to make East Germany hold on, and it basically hasn't worked. The Italians have spent enormous sums on the Mezzogiorno trying to make it… —

But it's not total failure. You get particular—well, Springfield, Ohio is an example of, in a way, how a place can be revived. That's not actually a result of—that revival predates the Inflation Reduction Act. But it is the kind of thing that you can do. So you can produce at least some surviving, thriving centers in the hinterlands—the places that are not the core.

We're never going to—there is a strong pull, I mean, this is not policy, but there was an attempt by a few people to kind of, "Let's move Wall Street to Miami." And that has crashed and burned because as somebody was quoted as saying, "the trouble with moving to Florida, is that you have to live in Florida."

CARDIFF: I was born and raised in Florida. That's just rude. [Chuckling]

PAUL: Oh, well, sorry about that. I'm a New Yorker. When tired, I revert to the [unclear] code-switching. "This is a bottle of waduh." Anyway.

CARDIFF: [Laughing] Plowing ahead!

PAUL: Plowing ahead. But no, this is interesting because we actually, in some ways, are back in a world… I loved economic geography. It's just such a fun subject, and there's so many stories associated with it. But one of the things you learn is that improved communication can actually lead to more concentration, not less. It means that more stuff can be run from an office in New York or San Francisco.

It can go either way. And, historically, the big unequalization of U.S. regions in the 19th century was a result of improved communication. It was a result of railroads and telegraphs.

CARDIFF: One to ten, your confidence that we will be able to avoid a recession because the Fed, whether you think they were late or right on time, got there in time to head one off.

PAUL: I'm only about a five. I'm really worried. I mean, part of the reason is not that I have any expertise in reading the tea leaves. I mean, that's a black art. I'm not sure that anybody knows how to really figure out what's going on there. At the moment, the kind of high-frequency data allow you to believe whatever you want to believe.

But I just find it really weird that we went up to 8 percent mortgage rates without seeing a recession. And while maybe the structure of the economy is such that we can in fact withstand a temporary bout of that, I'm always worrying that there's another shoe still waiting to drop.

And, I just said I have no expertise in reading the tea leaves, but there's one thing I actually learned from some various experiences over the years, that the soft data can sometimes actually tell you things that are just not visible in the hard data yet.

And people were talking about that IT-based productivity boom a long time before it was obvious in the data. And they were right. And if you read the last Beige Book, it's not very encouraging. And so, I'm a little concerned that we may have waited too long.

CARDIFF: A few personal questions before we go to audience Q&A. You and I are neighbors in New York City, where in the last few years the population of kids under five has fallen by about 20 percent, because young families are basically leaving.

There's not enough permits for building over the next few years. Vacancies are super low. It's a real problem, affordability.

And I don't want to stigmatize city living. I think a lot of people point to crime and things like that, and in New York that's not actually a problem.

But New York City does have a lot of problems. And right now, the entire Adams administration is under investigation or quitting and getting ready to testify against the other ones, right? Like, it's ridiculous.

And this is not limited to just New York. A lot of big cities seem to have the same problems. What is your answer to why it seems that Democrats are so bad at running cities? Or limit it to New York if you want.

PAUL: I mean… New York, the refusal to build housing, that is definitely a Democrats problem. Although it's kind of funny, because if you read the relevant section of Project 2025, it's full-on NIMBYism. It's basically saying the federal government shall not stop local communities from preventing construction of housing they don't want.

So there's a kind of bipartisan… dysfunctionality—

CARDIFF: Stupidity?—

PAUL: Well, it’s not stupid. It's just destructive. The NIMBYism, though, if you ask why has Texas overtaken New York, the biggest single reason is that somehow they just don't have much zoning. And so, they can build housing.

Otherwise it's not, I mean… yeah there's a lot of corruption, but is New York really that badly run? There's a lot of things that work. We both live there, and it's always a kind of a joke, right, that the whole country thinks it's an urban hellscape. It's actually just about the safest place in America. It has a wonderful system of parks. The subway is ugly, but it's actually extremely efficient. And so, is it really [badly run], I'm not sure.

I think, and this is not just a Democrats or cities problem, how is it that the world's greatest nation, with all of its sophistication, finds these people as politicians?

CARDIFF: What’s the answer? [Chuckling]

PAUL: Well look, politics, there's a huge free rider problem. Voters don't have a strong individual interest in choosing someone, and people don't know much about politics — nor should they really. People have lives to live, children to raise, and all of that.

We used to have, with all of its negatives, we used to have a kind of an establishment, that enforced some standards. There's a lot of ambiguity — bipartisanship, the golden age of bipartisanship, was partly possible because you had all of these racist southern Democrats — but still, there used to be more of a filtering mechanism. And we were less fractured. If Walter Cronkite could get on TV and say, “we need to get out of Vietnam”, people believed him. And we don't have anything now. We do get an awful lot of really, really, I mean—the quality of people that we have running for, let's say, senatorial seats, if you've been reading the news lately… and I think I'll stop right there. [Chuckling]

CARDIFF: You once said that one of your professional regrets was that you didn’t do more empirical work. It seems like the economics profession itself has shifted dramatically in favor of more empiricism. And I’m wondering if that is still a regret of yours, and if so, is it something you’d like to try out?

PAUL: Well, it’s a regret of mine. Not at this point in… look, I'm not doing a lot of new research now, and I think that's okay. There's a certain kind of open-mindedness, raw ambition, whatever, that you can have when you're 30, that's not gonna be there when you're 70.

And if you keep on trying to… it depends a little bit. People who are more empirical can keep on doing really productive work right up to the end. But if you're somebody whose specialty was little models, then probably not.

I mean, I will not tell you who, but there's one colleague of mine, of whom it is a running joke among people who know him, that he writes a really good paper every year, and we wish you would stop writing that paper and try writing a different one.

CARDIFF: [Laughing]

PAUL: You do tend to repeat yourself at a certain point. I mean, the profession has moved heavily towards empirical work. Which is fine. There are phases.

In the 80s, it happened that there were new ideas: We were breaking out of the kind of perfectly competitive, constant-returns paradigm, and there was just a lot of mind-opening to be done, which was something that suited my own mindset. So I did that, but later on…

Well, I had a conversation a couple years ago with David Weinstein at Columbia. I love his stuff. And he, not as a criticism, he was saying, “None of your best-known papers would be publishable today, because they were all little models based on stylized facts without a big database and a lot of empirical work.” Which is not saying that it was wrong to write them the way I did at the time I did. But sure, we've moved on, and we have lots more data and vastly more ability to process data, so we do different work.

CARDIFF: Last question, before we turn to the audience, if we can start getting the mics ready.

It doesn't seem like you've repeated yourself too often throughout your career in terms of the stuff you've tended to focus on. And if you just look at the topics that we've just discussed in this limited interview, it's been a lot. Currency crises, economic geography, new trade theory, liquidity traps, and so forth. All of that is a part of what you've done in your career. So my last question is: what are you most proud of?

PAUL: Oh, that’s a good question, and a hard one. My own personal favorite of everything I've written is actually the liquidity trap [work]. Just because it turned out to be just totally relevant. There was this period in the late 90s when Japan was experiencing deflation, and I think most Western economists just said, “Oh, those Japanese, they don't know what they're doing.” And a few of us said, “Hey, that could be us,” and tried to think it through. And I think that has really stood well.

Aside from that, I think the economic geography stuff. Just because what was funny about that was not so much that I was solving a problem that had been bothering people, as I was saying, “Hey, look around you.” One of the most important things about the economy is something we don't study at all. Which is, where is stuff? Where are the people? Why are they where they are? And that really just opened up a lot. But those would probably be the two things.

But… I dunno, I love all my children—

CARDIFF: [Laughing]

PAUL: My intellectual children. It's true that I've had the good fortune to, one way or another, be exposed to enough new stuff. That I think I've actually managed to change, to move on and not keep writing the same paper five or six times. I probably have written the same paper one or two times, but not one of those repetitive things. And, in the end, probably geography and liquidity trap would be the ones that will stay.

CARDIFF: Great. Alright, let's go to some audience Q&A now. This is usually the time when I'd say, “If you have a question, please keep it brief and civil.” But this is the Econ*Twitter* Conference, so civility, eh, kind of optional. We're ready for it. Let's see, who's got a question? Right down here, Joe's got a question.

JOE WEISENTHAL: Hey, Paul.

CARDIFF: Joe, introduce yourself please.

JOE: Oh yeah. Joe Weisenthal. So I know you have misgivings, obviously, about the White House policy towards China. And I know you have friends or allies in the administration that maybe you have misgivings about criticizing. I'm curious, however, what you see as the role that pro-competition antitrust policy has.

Is it undermining our efforts to build up industrial giants against China, that we seem to be putting so much pressure on large companies such as NVIDIA or big AI giants? Or is it consistent with industrial policy that, if we're going to pick winners and so forth, that we should make sure that we have a competitive market?

PAUL: I don't really think there's a big conflict here because — and by the way, “misgivings” is not quite the word for my feeling about our China policy. It makes me nervous. I approve of the policy. I think it's the right thing to be doing. It's just that it scares me, because it is such a… we're in a little bit of an economic war with China, and it's a technological war. It's serious. There are good reasons to be doing it. But it's not that I think they've gone overboard, it's just that I'm nervous about how far we are in fact going, even though I think we do need to do it.

And it's a very different thing to be promoting some kind of leading companies there and to be going after the antitrust. If we're worrying about competition among meat packers or grocery chains, which we are, and appropriately, not that I think that's what drove inflation, that's not really in conflict with an aggressive technology policy towards China.

CHRIS RUGABER: Hi, Chris Rugaber at Associated Press. I wanted to ask: you've written about sentiment and the way economic data suggests that obviously we've been in a relatively healthy economy. At the same time, last week, the Census—

CARDIFF: Chris, can you speak a little more loudly into the mic? Thanks.

CHRIS: Oh sure. Oh yeah, there we are. Just wanted to ask about sentiment and the economy, and what some have obviously for some time talked about a potential gap between those two. Last week, we had [Census data] showing on the one hand that median household income has recovered to its 2019 peak, therefore meaning that wages or incomes have more or less kept up with prices.

On the other hand, that does suggest that for four years the median household did not get an inflation-adjusted raise. And if you look at the same data, the four years preceding that from 2015 to 2019, there was actually a fairly significant 14 percent increase in inflation-adjusted income.

So, it just seems like there's been a lot of breath spilled by many people on this issue, and maybe it isn't so complicated, we've just seen a big slowdown in inflation-adjusted income, and if that doesn't explain a lot of where our sentiment is right now. Thank you.

PAUL: I think you can watch the event that the CUNY Graduate Center will be holding on this on October 1st — although apparently it's going to overlap with the vice presidential debate — but we're going to have several of the Stone Center people, and Ernie Tedeschi and I are going to be talking about why is consumer sentiment so negative when a lot of the macro numbers look more positive.

That's something I have repeated myself on, probably. I've written about that a fair number of times. In some ways, I've gotten even more puzzled now about that because the consumer sentiment remains pretty depressed, by most measures, in ways that do seem, even if you take into account these inflation-adjusted median income and so on, it still looks a little odd that people are so down.

We know some things about it. But what really freaks me out right now is that while the consumer sentiment numbers remain stubbornly depressed, the head-to-head polling suggests that the Trump advantage on the economy has disappeared.

So a few months ago, you could have said people feel terrible about the economy and they want Trump, who they think will do better. Now it's the same economy, and there's someone from the same administration, but they say, “Oh, I think she can do okay.” And so, what is going on? I actually don't know.

I suspect that in this extremely partisan world that we're in, the question people answer may not be the question you ask, right? I think a lot of what was happening was people were asked, “How do you feel about the state of the economy?” And they said, “I hate Joe Biden.”

And somehow, just changing the name at the head of the ticket, even though there's pretty much complete continuity of economic policy, somehow, although it doesn't show up in the consumer sentiment numbers yet, but maybe it will, it's showing up in the polling numbers. It's really wild.

CONSTANCE HUNTER: Hi, thank you. Constance Hunter, Chief Economist at the Economist Intelligence Unit. So, right now, when we focus on trade, by and large we tend to focus on goods trade. But services trade is growing in size and importance. And we don't really have any tariffs that I'm aware of on services trade. We also don't have exceptionally good data.

So I guess my question is: what research do you think needs to be done on services trade? And what policies should we have? And should we have more data on the services trade?

PAUL: Yeah, we should have more data. Although I have to say that the great surge in services trade — people have been predicting that there'd be an enormous increase in service trade, and that we'd have massive job displacement from service imports, for about 20 years now. And the reality has fallen well, well short of that.

And it would be great to have more data. It is true that, although we don't have tariffs on it, this is one of those areas where regulation probably plays a significant role in reducing the possibilities of service trade.

And also, by the way — we didn't get to this — does technology promote globalization? And your immediate answer is to say yes, but that's actually not at all obviously true. It cuts both ways. Sometimes it makes it cheaper to produce things domestically. And one of the things that really is happening right now is that A.I. is probably an anti-globalization force. Because instead of dealing with a person at a call center somewhere in Asia, you're dealing with a robot.

It actually comes back to what I was saying about, has geographic concentration of industry really gone down or is it just that our classification system isn't capturing what's happening? This may be a data issue, and it may be that we're actually understating services trade. Although I'm not seeing the kinds of large-scale — it wouldn't be a China shock, I guess, maybe an India shock — large displacements of domestic workers by services imports.

Of course, what we're actually doing is, we're basically just scaling back data collection efforts across the board. So if you ask me that question five years from now, I will respond with similar uncertainty but even less information.

CARDIFF: That was a good question. Next.

ALEX ARMLOVICH: Great. I'm Alex Armlovich with Niskanen Center Housing. But I wanted to ask a macro question. The three COVID stimulus packages together were more than 20 percent of GDP, the largest peacetime reflationary package in the history of the country. Larger than the New Deal but not quite as large as World War II mobilization.

If that can't cause inflation or upward pressure on interest rates for the Fed to offset in order to keep nominal GDP on track — if that can't put upward pressure on interest rates and inflation — should we be skeptical of the power of fiscal policy? Or is it that maybe it did work well, and we overshot, and then the Fed offset?

But I'm curious: should we worry that lefty Twitter macro denying the relevance of a 20 percent of GDP package, is that going to undermine the future case for stimulus when we need it by saying that stimulus can't actually cause reflation? Thank you.

PAUL: Okay, a couple of things here. [Pause, laughter] One was that the first stimulus package was very much about insulating people from a very massive negative income shock. So it's not entirely clear that that would be a one-time hit to inflation.

And by the way, interest rates. It's amazing in some ways how still we are in the dark about exactly what happened here. But one story is, yeah, we did get a major aggregate demand shock from fiscal policy, which was offset by a large rise in interest rates. And now that the fiscal shock is in the past, the interest rates are coming back down. And the reason that it appears that we did not get a very serious overheating of the economy, at least for any extended period, is that interest rates went up. Maybe. And that *might* be the answer to the question, “How can we have had interest rates go up so much without a recession?” is that it was a struggle between interest rates and fiscal policy, which ended up canceling out.

But the whole COVID and post-COVID period is a really bad way to test policy effects because there was so much damn stuff going on. What was great about the golden age of the economic blogosphere, which is like the early 2010s, it was also a golden age for natural experiments in macro policy, because some countries imposed austerity and others did not. We, for the first time ever, were able to get pretty good estimates of the fiscal multiplier.

Which rather remarkably… when Christina Romer had to do the Obama plan, she said the multiplier is 1.5. And after all of the Euro crisis and so on, we could run through the data and say, the multiplier appears to be about 1.5. That was the first time that you could really get that, and I don't think that we can draw much of a conclusion, but that episode suggested that fiscal policy does have a large effect.

And I would be really skeptical of any attempt to read this wild, crazy, chaotic [post-COVID] period as saying that what was clearly true 15 years ago is not true now.

CARDIFF: Unfortunately, we are out of time. But Paul's here for the rest of the afternoon. So, maybe give him a few minutes to take a break, but after that, if you've got questions for him, you can approach him directly. Let me close by encouraging everybody to read Paul's column from this past week on how immigrants can, and in some cases, have, revived parts of the American heartland. And simultaneously, to look up the really beautiful recent history of Lancaster, the city we're in right now, which is another great example of how exactly that sort of thing did happen over the course of the last three or four decades.

And with that, a round of applause for Paul Krugman please.

[Applause]