Comment on "Easy Useless Economics" by Paul Krugman*

By Tsang Shu-ki (www.sktsang.com)

13 May 2012

Krugman is against austerity measures that undermine recovery prospects in the current global crisis. And I quote him:

"Of course, structuralistas say they are not making excuses. They say that their real point is that we should focus not on quick fixes but on the long run — although it's usually far from clear what, exactly, the long-run policy is supposed to be, other than the fact that it involves inflicting pain on workers and the poor.

"Anyway, John Maynard Keynes had these peoples' number more than 80 years ago. "But this long run," he wrote, "is a misleading guide to current affairs. In the long run we are all dead. Economists set themselves too easy, too useless a task if in tempestuous seasons they can only tell us that when the storm is long past the sea is flat again.

"So all this talk about structural unemployment isn't about facing up to our real problems; it's about avoiding them, and taking the easy, useless way out. And it's time for it to stop."

I think this is another enlightening piece of sharp and justified responses against the establishment from an academic economist with conscience. In the long run we are all dead, indeed. However, the span of history extends far beyond any human life. Death does not seem to be an appropriate reason to rebut even "easy useless economics.

Within the confines of Krugman's discourse, the debate becomes relatively narrow. It is actually between quick-fix monetary quantitative easing (which helps the financial institutions – some of which were the original sinners) versus short run fiscal stimuli (which relieve the pain on the common people at some cost to the rich). So it is again Wall Street versus Old Street.

Both parties are not truly long run in analytical perspectives, although they use the term whenever it serves their purposes.

Long wave theories (Marxian, non-Marxian and the rest) talk about hundreds of years, with cycles in between. The current problems may not be "structural" as stated by the modern parties of vested interest, whose profit horizon averages perhaps less than a decade, but neither are they short run. What about if the contradictions are historical, development and systemic in nature?

In a nutshell, ‘structural” troubles could have been mainly brewing on the side of capital, rather than on that of labour.

Let me add several crucial points. This down-wave is different from the Great Depression of 1930s, in two major aspects: (1) globalization has gone much ahead (the Keynesian IS-LM model made famous by John Hicks was a closed-economy one); (2) the risky advance of financial capitalism, assisted by the IT revolution, has ventured beyond expectations, creating highly leveraged products and services whose explosion led to the "tsunami".

Hence to tackle the difficulties, we can’t just fall back on Keynes! Fiscal expansion by one government could be as futile as “socialism in one country”, given the unprecedented mobility of capital. What is needed should include a global/regional systemic programme that ensures a proper and just sharing of benefit and pain, together with genuine financial reforms (e.g. Tobin Tax of various kinds, extensions of the Volcker Rule, enforcement of international prudential supervision, plus a revamp of control over the global monetary system … etc.). Only then the unruly behavior of financial institutions could be restricted; and the global economy might ponder about what Keynes once said, the storm is past and the sea is flat again.

Of course, there will be more developmental troubles to solve. But let’s prevent the world from sinking further, effectively rather than by just citing past wisdom.

* Krugman’s article was published on New York Times (May 10, 2012)
http://www.nytimes.com/2012/05/11/opinion/krugman-easy-useless-economics.html?smid=fb-share