

The 2012 Interview with Paul Krugman – Playboy Magazine

How can winning a Nobel Prize in economics seem like it's no big deal? Well, if you've already won the John Bates Clark Medal—an honor bestowed biennially on the American economist under 40 who has made major contributions to his profession—you've already taken home a piece of hardware considered by many economists to be slightly harder to win than a Nobel. Only 12 people have won both, including Paul Krugman, who collected the 1991 Clark and then snagged the Nobel (and its \$1.4 million check) in 2008.

While Krugman's elite status within the economics profession rests on his groundbreaking theory of international trade and his expertise on a host of international financial crises, his broader national influence comes from the media real estate he occupies on the op-ed page of The New York Times, a column he began writing in 1999.

Pointing to his relentless attacks on the Bush administration—which usually included creative ways to say “liar”—conservatives fume that Krugman is a partisan Democrat. The current occupant of the White House may politely disagree with that accusation, as Krugman has also directed withering criticism at Barack Obama. Krugman is not hitting a man when he's down: While many of his peers in intellectual circles were swooning, Krugman was blistering candidate Obama during the 2008 Democratic primaries.

But there is a difference between the Bush years and now: This administration frets about what Krugman says, partly because of his ideas but mainly because his voice is listened to by legions of liberals disappointed with what they perceive to be the president's failures. The administration courts him—he has dined on roast beef with the president at the White House, along with such other critics as fellow Nobel Prize winner Joseph Stiglitz. Krugman's tone of “I knew it first” and “If you had listened to me...” can be annoying to some politicians. But the problem is that he has more often than not been right.

PLAYBOY sent noted economics writer **Jonathan Tasini** to find out Krugman's thinking about the current economic crisis, the Obama administration's handling of the financial meltdown, the politics rippling through the country as the 2012 presidential election looms and whether anything can be done to drag us back from the abyss. After many hours of conversation in New York and in Krugman's Princeton University office, Tasini says, “Krugman is a man who made his reputation, in part, on his fascination with and intellectual work on financial panics and collapses. So he is in his element now because he loves a good crisis. As he admitted candidly, he is not a bright-eyed, slap-you-on-the-back, optimistic cheerleader. Quite the opposite. The global economy is giving him a great canvas to draw a depressing picture, but he's also agitating for action that he says can get us out of the mess we're in.”

PLAYBOY: It seems every month various people debate whether we're in a depression or a recession. Where are we—recession, depression? Or is it something else?

KRUGMAN: The recession officially ended in June 2009 because that was the point when some things—industrial production, GDP, but not employment—started to go up again. But I say we're still in a depression. I've taken to calling what we're in the Lesser Depression. It's not as bad as the Great Depression, but it's like the Great Depression. It's a prolonged period. We're now four years into high unemployment and lousy economic prospects for most people. If you've lost your job, your chance of getting another is small. The number of people who've been

unemployed for long periods is at a level we certainly haven't seen since the 1930s. What we're experiencing is an economy that probably feels in a lot of ways like the U.S. economy in 1937, when, almost everyone now agrees, policy makers were way too complacent and should have kept on pushing for more employment. It's lousy.

PLAYBOY: In 2002 you wrote that you were worried about the unemployment rate—and it was only 5.7 percent. You also made the point that people had been out of work for longer periods than before, that people had given up looking. Now we're almost double that rate.

KRUGMAN: It really is catastrophic. If you include people who aren't actively searching for a job and people who are working part-time even though they want full-time work, we're up to about one in seven. That means the unemployment rate is 16 percent. I live in a fairly rarefied social class now and so probably hear a lot fewer personal horror stories. But I do hear them: people my age, 58-year-old guys who've lost jobs and see no chance of ever getting another one; young people out of college with good qualifications who can't find anything, who can't get their lives started. The human damage is enormous.

PLAYBOY: Some of that debate is irrelevant to the average person. All they know is they don't have a job or they don't have a job that pays enough.

KRUGMAN: The point is there's a tremendous amount of suffering. A lot of America is much worse off than it was four years ago. I think the main reason you should be angry about it is that it's gratuitous. This doesn't have to be happening. We actually have the tools to make most of this go away. If we could throw aside the political prejudices and bad ideas that are crippling us, in 18 months we could be back to something that feels like a much better economy.

PLAYBOY: So people in America today are suffering when they don't have to be because of policy makers who won't do the right thing?

KRUGMAN: That's right. I've gotten some grief for my remark that if it were announced that we faced a threat from space aliens and needed to build up to defend ourselves, we'd have full employment in a year and a half. But that's true. Why couldn't we do that to repair our sewer systems and put an extra tunnel under the Hudson instead of to fight imaginary space aliens? Everybody in the world except us is doing a lot of investment in infrastructure and education. This is the country of the Erie Canal and the Interstate Highway System. The Erie Canal was a huge public infrastructure project financed with no private or public-private partnership. Can you imagine doing that in 21st century America? We really have slid backward for the past 200 years from the kinds of things we used to understand needed to be done now and then. And all of that because we are shackled to the wrong ideas.

PLAYBOY: Many people still believe efficient financial markets exist. Did that blind many economists to the biggest financial bubble in history?

KRUGMAN: Environmental regulations could actually be creating jobs right now, but people say, "Oh, that's crazy. How could that be true? Regulations add to costs." My answer is this: Does the story about the world that underlies what you guys are saying allow for what we see all around us? Do your theories explain nine percent unemployment and this monstrous economic collapse?

PLAYBOY: Is the United States becoming a banana republic?

KRUGMAN: In some important ways, yes. We used to talk about the classic problems of typically Latin American countries where the inability to achieve political consensus made it impossible to have effective economic policies. Well, that's us. And, of course, there are the levels of inequality. In a lot of ways, America now looks like the classic Latin American problem.

PLAYBOY: During the financial crisis and particularly in the aftermath, many pundits blamed regular Americans for buying houses that were too expensive. Is that the cause of the financial crisis, people buying big houses?

KRUGMAN: No, it's not. They did that because they believed the prices would continue to rise, and the lenders believed the prices would continue to rise. It's not an evil thing to buy a house in the belief that if things go well, you will be able to afford it or sell it and pay off the mortgage. Of course, as always, people are trying to make it into "those people" being irresponsible and doing in the financial system. But it's not that story. It's just a classic bubble, but it's an enormous one.

PLAYBOY: What about Wall Street's role?

KRUGMAN: If you're asking why people were buying those houses, it's because the money was being made available. Why was the money being made available? You had a whole machine making it seem as if dicey loans were actually safe, and a fair bit of predatory stuff was also going on. People were being pushed into mortgages they were told they could afford because they didn't understand the fine print. Of course there was the slicing and dicing and tranching and making subprime toxic waste appear as triple-A bonds.

PLAYBOY: Were there people who knew what they were doing was wrong and yet kept doing it?

KRUGMAN: Yeah, exactly. Money was flowing easily. Regulators were largely absent on both sides of the Atlantic. In the United States it was more systematic deregulation and nobody willing to say, "Hey, wait, this doesn't make sense." I doubt that many of them really understood just how bad it was going to be. But there were certainly people who understood they were cutting corners and taking risks that were much bigger than anyone was acknowledging. We have a situation in which people in the financial industry are very much "Heads I win, tails someone else loses." The whole way compensation works is that if you can create even the illusion of high profitability for a few years, then when the thing collapses you can walk out of the wreckage a very rich man.

PLAYBOY: Were crimes committed here, and should people be in jail?

KRUGMAN: It's hard for me to believe there were no crimes. Given the scale of this, given how many corners were being cut, some people must have violated laws. I think people should be in jail partly because I'm sure crimes were committed and partly because the lack of accountability is a serious problem. Something terrible happened and nobody has been held accountable. The public is angry, and a lot of the anger is being directed at the wrong targets.

PLAYBOY: Many complain that the Occupy Wall Street movement doesn't have a clear message. What do you think?

KRUGMAN: I think OWS has done a great service. We didn't need 10-point proposals. We needed someone to declare that the emperor was naked. The conversation has shifted since the protests began, and that's good.

PLAYBOY: Are we undermining the political structure and our society if we're not holding people accountable?

KRUGMAN: My sense is that in the face of this catastrophe, people needed some sign, a kind of symbolic sense of who was to blame. Obama helped create a political monster that's now come and bitten him. If you're not going to point fingers at the people who actually caused the problem, then those fingers may end up pointed at you. But we're doing only minimal reform. One of the big differences in the 1930s was genuine hearings. There was a genuine attempt to say who the evildoers were. This time around the powers that be are desperately afraid that Wall Street might be mad at them.

PLAYBOY: Should reform hurt bankers? Is what's bad for Wall Street good for Americans?

KRUGMAN: We know that finance got hugely bigger, right? Finance as a share of the economy doubled in the couple of decades before the crisis. What used to be a fairly slow, boring industry became gigantic. I think it's hard to say that was good for America, that those people were doing something productive. The story was that they were directing the nation's savings into productive uses, but somehow subprime lending doesn't fit that description. Something that made finance less profitable, less attractive would probably have been a good thing. The people's sense is that all this money was given to the banks and the people got nothing in return—which is wrong, actually. Not much was lost in all that. But things would be a lot easier to explain if the U.S. government had in fact temporarily taken ownership of Citibank and/or Bank of America. It would have been a lot clearer, and Wall Street would be a bit less arrogant than it is now because it would know that if you require taxpayers to save your business, it won't be your business anymore.

PLAYBOY: You've said that the 2009 stimulus to create more jobs was one thing and the bank bailouts were another, but people conflated the two. Did Obama fail to get that message across?

KRUGMAN: I'd say there was certainly a lack of conviction. Obama's inaugural speech in 2009 did have a bit of Keynesian rhetoric, but then he also said we all have to be prepared to make sacrifices. A lot of people ridiculed [then House minority leader John] Boehner for saying that if people have to tighten their belts, the government should tighten its belt too. And it was right to ridicule, because that's completely wrong in this kind of downturn.

PLAYBOY: That notion of shared sacrifice comes up a lot. CEOs have gotten huge riches, and yet it seems the people who had almost nothing to do with the crisis are asked to share in the sacrifice.

KRUGMAN: To the extent that sacrifices need to be made, shouldn't the people who've made out like bandits this past generation be first in line? The problem with getting out of the slump is that we need to spend more. It's not that somebody needs to spend less. We have idle workers who have the skills and the willingness to work. We have idle factories. Dealing with this is not

about saying somebody needs to suffer. It's saying that we need to be prepared to open the taps. We should not be using the language of sacrifice to talk about how we deal with the current slump. It's a little shocking that that shorthand rhetoric about "shared sacrifice," which is what people say when they want to sound serious, infiltrated the rhetoric from the beginning, even with a Democratic president. That's a major part of the reason we're still in this slump.

PLAYBOY: So rather than talk about shared sacrifice, should the slogan be "Let's spend more and aid the people"?

KRUGMAN: How about "Let's get this country moving again"? I'm as prepared as anybody to preach root-canal economics under the right circumstances, but this is not the time for it. The problem with our economy is people would like to buy stuff, but they don't feel they have the income. I try to make a distinction between the inequality in justice, which has been a problem for 30 years and is certainly part of what has gone wrong with America, versus the Lesser Depression, where the core issue is to get spending to take place.

PLAYBOY: So you separate the immediate problem of how to get out of the Lesser Depression from how to equalize America again.

KRUGMAN: That's right. We could conceivably have a full economic recovery that would just put us back where we were in 2007, which would be a shame. But it would be a lot better than not having a recovery. In 2007 America was not a happy story, but it was not a catastrophic story the way America is right now. I want America, at least in income-distribution terms, to go back to 1973. But I want employment, at least at first, to get back to 2007.

PLAYBOY: You perhaps more than anyone expressed surprise and disappointment in the president when he failed to champion a much larger stimulus in 2009.

KRUGMAN: Obama is very much an establishment sort of guy. The whole image of him as a transcendent figure was based on style rather than substance. If you actually looked at what he said, not how he said it, he said very establishment things. He's a moderate, cautious, ameliorative guy. He tends to gravitate toward Beltway conventional wisdom. He's a certain kind of policy wonk, the kind that looks for things that are sort of centrist in how Washington defines centrist. He was talking about Social Security cuts during the 2008 primary. That's how you sound serious in our current political culture. He wasn't sufficiently distanced to step back and say that a lot of our political culture is completely insane.

PLAYBOY: Of the three main political candidates in the 2008 primaries, Hillary Clinton and John Edwards had more progressive plans on health care than Obama.

KRUGMAN: Right. And we might notice that the really big debate, which was furious and screaming, was about whether we needed a mandate on health care reform. And the answer is of course we did. Obama was just wrong and, I have to say, demagoguing a bit during the primary by pretending you wouldn't need it and by using that as a stick with which to beat Hillary. A lot of people who were normally like me didn't like me because I was saying, "Obama's really not the progressive you think he is." And now they're all saying, "He's not the progressive we thought he was." He came in prepared with the wrong set of instincts, and it's taken a while to get past that.

PLAYBOY: On the 10th anniversary of the September 11, 2001 attacks, you wrote, “What happened after 9/11—and I think even people on the right know this, whether they admit it or not—was deeply shameful. The atrocity should have been a unifying event, but instead it became a wedge issue. Fake heroes like Bernie Kerik, Rudy Giuliani and, yes, George W. Bush raced to cash in on the horror. And then the attack was used to justify an unrelated war the neocons wanted to fight, for all the wrong reasons.” You lit a fire with those comments, but you didn’t back down. You followed up by recalling your previous attacks on the Bush administration’s decisions post-9/11, saying, “And there’s nothing I’ve done in my life of which I’m more proud.”

KRUGMAN: It just seemed I couldn’t let this 10-year anniversary go by without reminding people of what actually happened and saying, “Hey, you know, I haven’t forgotten.” It was a truly terrible time, with bad behavior by a lot of our political class, and we should not whitewash it. We need to remember that.

PLAYBOY: Back then people were being told they shouldn’t speak up. Did you get a lot of hate mail?

KRUGMAN: Oh, yeah. It was an odd period, all made tougher because the mail from the *Times* was being steamed open for the anthrax stuff. I’d get these big envelopes full of sticky pieces of paper, and many of them, of course, were vile attacks. It was a pretty awesome time. There’s a certain sense that if I got through that, then I’m certainly not going to be intimidated by anything now.

PLAYBOY: You pointed out it’s the closest we got to the McCarthy era.

KRUGMAN: For the most part, after the initial shock, people behaved pretty well. There were no lynchings of Muslims—or hardly any, not enough to make a lot of noise. There were no purges of people who were critical. The public seemed to get back on an even keel pretty quickly. It actually spoke well for the American people but not at all well for our political class.

PLAYBOY: In 2006 the Democrats had a big election victory. They took back the House and Senate, and then in 2008 they got control of the White House. You believed the country was moving left. How do you explain what happened in 2010?

KRUGMAN: If the economy turns bad and you’re the incumbent party, you get punished. FDR had the great good luck to run in 1932, when the economy was collapsing, and then to run again in 1936, when the economy, though still depressed, was on the upswing. Primarily, 2010 was what happens when you have a lousy economy. The incumbent party gets hit hard.

PLAYBOY: The Tea Party emerged as a major force. Why?

KRUGMAN: There’s an internal dynamic within the Republican Party, which is that the extreme right is gaining power through sheer enthusiasm. And in a general election, people tend to vote the bums out when the economy’s lousy. When I saw that the stimulus was likely to be way inadequate, I was worried that bad things would happen electorally to the Democrats, and they did.

PLAYBOY: Was the president right to focus on health care at that time?

KRUGMAN: Why are they in conflict? If he's reelected, or if at least the Democrats have a strong enough showing in the congressional elections and health care survives, then something important will have been achieved. The goal in the end is not to win elections. The goal is to change society. I would still give Obama even odds of being reelected. He's holding up a whole lot better in the polls than he should be, given the state of the economy.

PLAYBOY: When did he start going wrong as president?

KRUGMAN: His inaugural speech was not the speech of somebody who understood that these aren't our usual problems. It was not the speech of somebody who understood we were in a replay of the early years of the Great Depression.

PLAYBOY: You've been fairly easy on the Clinton administration, but Bill Clinton had similar Wall Street people surrounding him. It was under Clinton that the Glass-Steagall Act, which heavily regulated banking, was repealed.

KRUGMAN: It's one thing to buy into this notion in the 1990s and something else to buy into it in the aftermath of the greatest financial crisis since the 1930s. The really big financial deregulation moves were made in the early 1980s. It was still not the right thing to do, and it was possibly a contributing factor.

PLAYBOY: Obama wanted to be seen as a transformational figure. His courting of and reliance on the financial sector of Wall Street were no different from the Clinton administration's. Former Treasury secretary and Citibank executive Robert Rubin and all those acolytes still seem to have influence with the White House.

KRUGMAN: In some ways maybe even more so. During Obama's fight for the Democratic nomination, a lot of Wall Street was behind him. After the 2008 crash, he should have said, "Wait, maybe I need a different set of people advising me." But at that point he'd been relying on essentially the Rubin crew. Certainly on the Democratic side, they have dominated the economic policy area for so long that it's hard to find anyone with actual policy experience who isn't part of it. Obama could have turned to the progressive think tanks. I'm still surprised he didn't.

PLAYBOY: Is he not a progressive person?

KRUGMAN: The fact that the Obama administration for a long time talked to [JPMorgan Chase chairman and CEO] Jamie Dimon and seemed to regard him as a source of wisdom suggests they didn't get it. Dimon may be a wonderful, warm human being, but people like him are part of the problem.

PLAYBOY: Speaking of high-profile economic voices, you were pretty harsh about former Federal Reserve chairman Alan Greenspan and his role in the financial crisis. Should we be listening to him anymore?

KRUGMAN: No. I mean, how wrong do you have to be to get written out of the debate? He assured us that deregulation was making the system more stable. He was repeatedly wrong as the crisis unfolded. Look at Paul Volcker, whom I disagree with on some stuff but who is certainly an incredibly upstanding human being. When he left the Fed, he deliberately went

silent to leave the field clear for Greenspan. Greenspan instead raced out to cash in personally on his role. He's been so completely wrong at this point that the idea that some people still listen to him as a source of wisdom is awesome.

PLAYBOY: Was the auto-industry bailout the right thing to do?

KRUGMAN: Yes, and I'm more convinced now, even though I supported it from the beginning. This is a big, important industry. Lots and lots of people. Economic devastation if it fails. It was clear you had to make a decision. Are we prepared to liquidate these companies? It seemed to me there was a pretty good argument that you should not.

PLAYBOY: And it's not just the jobs in the industry itself; it's the jobs around it, the communities, the supermarket where the wages are spent.

KRUGMAN: There are a lot of linkages. This is a regionally concentrated industry that supports all kinds of subsidiary things. If General Motors goes under, then a lot of suppliers go under, which then takes the rest of the auto industry down with it. It was as good a case as you could have for government intervention.

PLAYBOY: Is it accurate to simplify our modern economy as a choice between working for a high-wage General Motors model versus the low-wage Walmart strategy?

KRUGMAN: I think the choice we made, really without understanding that we were making the choice, was to make Walmart jobs low paying. They didn't have to be. In a different legal environment, a megacorporation with more than a million employees might well have been a company with a union that resulted in decent wages. We think of Walmart jobs as being low wage with 50 percent turnover every year because that's the way we've allowed it to develop. But it didn't have to be that way. If the rise of big-box stores had not taken place under the Reaganite rules of the game, with employers free to do whatever they wanted to block union organizing, we might have had a different result. Part of the hysterical opposition to the auto-industry bailout was the notion that we were bailing out well-paid workers with union jobs.

PLAYBOY: How does this affect the American tradition of a strong middle class?

KRUGMAN: What we know is that the New Deal era produced a big leveling; it basically turned us into a middle-class country, and it stuck. The question is not why it happened but why it stuck. It was unions. The thing about unions is they don't just negotiate higher wages for their members. They also have an effect on people who are not unionized. It's probably true that the union movement was a big factor in our having a largely middle-class country. The destruction of unions outside the public sector is an important factor in our no longer being a middle-class country. People say, "Oh, we can't maintain unions in the modern globalized economy." But then you see advanced countries where it works—Canada has had some decline in unionization but nothing like ours. It was a political decision. The best generation of economic growth we've ever had was the 25 years or so after 1947, which was a period of high unionization and high marginal tax rates. This is just an excuse for what amounts to pushing down the standards of U.S. workers.

PLAYBOY: Instead we now have a growing rich elite. CEOs used to make only 35 times what the average worker did. Now it's 243 times. Are you shocked that we've made gods out of these corporate executives?

KRUGMAN: It's happened too gradually to be shocked by it. These days if you just say "the wealthy," you get denounced for class warfare, because you're supposed to call them "job creators." What's really awesome is that a large proportion of the really high incomes are Wall Street related. The fact that those guys still consider themselves the driving force behind our economic success is awesome.

PLAYBOY: Companies can't be successful in this country without the roads, the bridges, the educational system—all the things that government builds for them.

KRUGMAN: Even some very wealthy people, like Warren Buffett, are more or less saying that. Bill Gates Sr. used to say this: Suppose you were given the choice of being born in America or in Ethiopia. What proportion of your eventual fortune would you be willing to give to be born in America? Given the great good fortune of getting to live and run a business in this country that has all the advantages an advanced country with a decent system provides, how can you think it's all you? And then, how can you feel you don't have any obligation to pay it back?

PLAYBOY: You have written that a country is not a company and that business executives really don't know how to run an economy. Why do many people, particularly elected leaders, bow down in reverence to whatever a business executive says?

KRUGMAN: My parents had a relative who was fairly wealthy, and people in the family would go to him for advice on their marital troubles, figuring he must be a wise man because he was a shrewd businessman. If you're rich and successful, people think you must know. But the skills involved in running a business are mostly about holding down costs and taking customers away from other businesses. Knowing how to run a business, even a big business, tells you very little about how to run an economy.

PLAYBOY: You have written that race is central to why people vote for Republicans against their economic interests. Is the Republican Party a racist party?

KRUGMAN: I don't think it's that simple. There's certainly a racist aspect to it. It's not explicit, and the code has gotten increasingly subtle over the years. You know, it was "the bums on welfare." Now "big government" in general becomes a kind of code for taking your money and giving it to "those people." There's a fair bit of crude racism still, but that's changed. We're actually a better country in that respect.

PLAYBOY: Just looking at the demographics of this country, we're becoming far less white and far more diverse. It's certainly true in the states that make a difference in presidential elections, like Arizona, Colorado, New Mexico, Florida. If the Republican Party is using a not so subtle appeal to racist feelings, isn't that a doomed long-term strategy?

KRUGMAN: Unless the Republicans can manage to convince both Latino voters and their white base that Latinos are actually white, then the trends are against them. But that could take a long time.

PLAYBOY: George W. Bush tried to privatize Social Security. More recently Rick Perry called it a Ponzi scheme. Is it?

KRUGMAN: It's a pay-as-you-go system. Each generation pays in while it's working and then collects when it's retired. There's no reason that ever has to stop. It's not going to run out of customers. End of story. It's a social insurance program run on a pay-as-you-go basis. No Ponzi scheme has ever lasted for 75 years. Let's put it this way. We've upped the ante. Bush was saying untrue things about Social Security in 2000, but they were nowhere near as untrue as the things Perry is saying now. Mitt Romney goes around saying that Obama has been touring the world apologizing for America, which is a flat falsehood. So you have to ask: Are the Texas lies bigger than the Massachusetts lies? But it's not as if Perry is being uniquely dishonest among the Republican contenders.

PLAYBOY: When we talked last time, you said you thought that at least on macroeconomics there wasn't a big difference between Obama and Romney. Romney is for cutting the corporate income tax down to 25 percent, eliminating the estate tax and extending the tax cuts for the wealthy that Bush pushed through. He proposed a 10 percent cut in the federal workforce and a \$200 billion reduction in Medicaid. That doesn't sound like anything Obama would support.

KRUGMAN: I'm not saying the values are the same. I have no idea what Romney would do if he got to the White House. Before he developed presidential ambitions he was a reasonable, centrist Republican. I suspect that guy is still inside there. His big problem is that lots of other people suspect that too. The insincerity shines through. It's possible that in the White House Romney wouldn't be all that different, at least on macroeconomic policy, from Obama. We don't know. Romneycare and Obamacare are the same thing. There are differences in detail, but the fundamental structure is the same. Of course if Romney is elected, his party may require him to do all the wrong things. Even if the man hidden inside Romney is not that different from the man hidden inside Obama, Obama's base is always trying to pull him at least a little bit to the left. Romney would be facing a Republican Party that is trying to pull him into the twilight zone.

PLAYBOY: One of your favorite things to talk about is what you call the "confidence fairy." We hear that we need to cut the corporate tax rate and roll back all these regulations that are stopping businesses from investing, all to create confidence.

KRUGMAN: If you actually ask the businesses, not their lobbyists, "Why are you not expanding?" they will say it's because they don't have enough customers. They lack confidence. But they don't lack confidence because they're afraid of what Washington is going to do or afraid of the taxes they're going to pay. They lack confidence that they can actually sell more stuff if they try to produce more stuff. The rest is a fantasy world. We should go to Mark Zuckerberg and ask, "How much did you think about the capital gains tax rate when you were starting Facebook? Did you even know what the capital gains tax rate was when you were starting Facebook? Do you know what it is now?" This is a psychodrama that people imagine is playing out in the heads of businesspeople, and it's not happening. It's all in the minds of the political flacks.

PLAYBOY: When did Republicans start to fixate on government regulation and start believing that cutting the corporate tax rate is a panacea for the economy?

KRUGMAN: This has always been the line. They're using it now because if that's not the problem, then the slump we're in shows that the whole low-regulation, low-taxes, trust-the-markets thing has failed. They can't admit that, so it has to be too much regulation that's causing it. When the economy's in trouble, the political defenders of the wealthy claim it's because the government is failing to instill confidence that it will stay out of the way of business. Once you concede that the government can actually do things to assure full employment, then they lose their favorite argument that you have to be nice to business to instill confidence.

PLAYBOY: Is there an economic rationale for the level of CEO pay, or is it just cronyism?

KRUGMAN: We know that actual pay setting is done by captive board of directors committees. It has every hallmark of being a situation in which there is cronyism. If you look at the really high pay, it's not CEOs of big corporations. It's wheeler-dealers on Wall Street. What are they doing exactly, and are they really earning that pay? I think over the past 15 years you'd want to shift your focus to the runaway financial system, which has made it possible for some people who are probably reducing the nation's wealth to make a lot of money in the process.

PLAYBOY: When you look at the Bureau of Labor Statistics figures, a large number of the jobs of the future don't require a college degree. Yet many people run around arguing that we have to educate everybody, that the problem is a lack of education.

KRUGMAN: It's a very American thing to believe that education is a panacea. It's always good. But we're not all going to be Ph.D.s doing technical stuff. The task is to create a society in which hardworking ordinary people can earn a decent living. But the idea that if only we had a better educational system and invested more in education the problem of jobs and inequality would be solved is wrong.

PLAYBOY: Vice President Joe Biden recently wrote that "a successful China can make our country more prosperous, not less." Is China an ally or an enemy from an economic point of view?

KRUGMAN: It's not that simple. Normally if a country decides to keep its currency artificially weak and buys lots of our Treasuries, it's a double-edged thing. You could say that hurts our manufacturing. On the other hand, it keeps interest rates low, and then we keep the cost of living low. But under current circumstances, with mass unemployment and a complete absence of policy levers to do anything about it, China is hurting us, period. There's no ambiguity about it. Chinese policy right now is our enemy.

PLAYBOY: Should we be more concerned now about companies like Walmart that are happy to have deep relationships with China because of the access to low-cost labor?

KRUGMAN: No, because that's different. Companies do use China for cheap labor, but the problem is not that China is a low-wage country; it's that China is running an artificial trade surplus, and that's very different. If China were willing to let its currency float, Walmart would probably still buy a lot of stuff from China. But the substantial drag on the world economy would go away.

PLAYBOY: Greece and Italy are in financial chaos. Are the euro and the European Union dead? Is that a good thing or a bad thing, or should we even care?

KRUGMAN: It's on the edge. They need drastic action—basically printing a lot of money for the time being—and it looks highly doubtful that they'll do it. I now think a breakup of the euro, with major players, not just Greece, being forced out, is up to more or less even odds. That doesn't kill the European Union, which is not identical with the euro, but it wounds it. And yes, we should care. We want a strong, successful democratic Europe. They are, in terms of fundamental values, our best friends in the world. Europe's failure leaves us isolated and weaker ourselves.

PLAYBOY: No wonder people dismiss you as gloomy.

KRUGMAN: I don't do uplift well. Have I ever written a feel-good column? I don't know. Maybe a couple of times. Maybe the eulogy I wrote for [columnist] Molly Ivins. I don't do it well myself, and I don't respond to it much in other people. I seem to be missing that particular piece of my emotional makeup.

PLAYBOY: Is that the way your parents were?

KRUGMAN: Oh sure. There are things I believe in and things I want to see happen. And I can be stirred and all that, but most of the time it's more of a skeptical approach. It's who I am. Unfortunately, in current times it has served me pretty well in terms of analysis if not so well in terms of persuading people to do what I think they should be doing.

PLAYBOY: On the other hand, just mention Arcade Fire around you and you light up.

KRUGMAN: That's an interesting thing. There are a lot of great bands out there, which I'm busy discovering. Thank God for YouTube. The thing about Arcade Fire is the absolute lack of cynicism. Sometimes I wish I could be like that. But if I can't, at least I can watch other people being like that.

PLAYBOY: It's fascinating. You write about these things on your blog. Is this a sort of midlife crisis for a baby boomer discovering new bands?

KRUGMAN: I was pretty much listening to the golden oldies station with 1960s and 1970s music, Fleetwood Mac being about as modern as I got. And then for some reason after Arcade Fire won the Grammys, I said, "Gee, what is this?" I was shocked. Oh my God, there's music being made now that is really good. It didn't all go away around the time I turned 35. And so that opened me up a lot. Arcade Fire is just the one that provides the most solace. It's gorgeous stuff.

PLAYBOY: You like Feist too.

KRUGMAN: Feist. The New Pornographers are probably technically better than Arcade Fire. But what the hell? It's all good.

PLAYBOY: It sounds like it gives you some hope and uplift.

KRUGMAN: Yeah. And to be honest, I have a crush on the women in Arcade Fire.

PLAYBOY: Arcade Fire delivers hope, but Wall Street failed us. The Rubin crowd failed us. Greenspan failed us. Who are the nonmusical heroes we can look forward to? Who's going to save the United States of America?

KRUGMAN: Heroes who could be in a position to move stuff any time soon, I don't see. The fact is the Great Depression ended largely thanks to a guy named Adolf Hitler. He created a human catastrophe, which also led to a lot of government spending. As you know, I'm famous for worrying about space aliens. It looks like it has to be some forcing event. Obviously you don't operate on that basis, so what people like me will do is keep hammering on this stuff and hopefully it will eventually break through. The safety net has been enough to avoid mass suffering, to muffle it. People are exhausting their savings. This is where you start to wonder how much individuals really do matter. Maybe there is somebody on the political scene who will emerge. I don't know where that comes from. But the big lesson I've taken from 10 years of punditry is that the story is never over. Who knows where we might be in four or five years?