Why Paul Krugman shouldn't be US Treasury Secretary [1]

Written by **Vuk Vukovic** [2] | Thursday 10 January 2013

The Guardian has endorsed Paul Krugman for the US Treasury Secretary job. [3] The initiative began with actor Danny Glover?s [4] online petition [5]. The Guardian's case for Krugman begins:

> *Krugman has been right about the major problems facing our economy, where many other economists and much of the business press have been wrong. [For example]: he wrote about the housing bubble before it collapsed and caused the Great Recession.*

So have many others ? earlier and more accurately than Krugman [6]. As for Krugman's predictive powers on the housing bubble, here he is in 2002 [7]:

> *The basic point is that the recession of 2001 wasn't a typical postwar slump, brought on when an inflation-fighting Fed raises interest rates and easily ended by a snapback in housing and consumer spending when the Fed brings rates back down again. This was a prewar-style recession, a morning after brought on by irrational exuberance. To fight this recession the Fed needs more than a snapback; it needs soaring household spending to offset moribund business investment. And to do that, as Paul McCulley of Pimco put it, Alan Greenspan needs to create a housing bubble to replace the Nasdaq bubble.*

Of course, we hear similar arguments today: that the government needs to create a spending boom to offset the lack of private sector investment. The more things change, the more they stay the same.

Krugman claims that he was taken out of context. He meant that the only good Greenspan could have done was to create a bubble. He was right. After all, the housing bubble did lead to a recovery. Up until 2007, that is.

Going back to the endorsement:

> *[Krugman] has forecast and explained that large budget deficits and trillions of dollars of "quantitative easing" (money creation) would not cause inflation or long-term interest rates to rise; and that the "confidence fairies" would not reward governments that pursued austerity in the face of recession.*

Of course inflation and long-term interest rates are low: the environment is uncertain and growth in the West is stagnant. Investors are looking for safe havens like US, UK or German bonds. That will change once we begin to recover. As for inflation expectations, we are still waiting to see how the Fed-induced monetary "bomb"

[8] will affect us in our next boom years ? however far away they are.

And gee ? I wonder why the confidence fairies are not rewarding tax increases, postponement of structural reforms, and a highly uncertain political environment? (Think Eurozone; think debt ceiling.)

> *Krugman has written extensively about the stupidity of the last few years of economic policy in Europe, which has been a major drag on the whole world economy. The treasury secretary would have only limited influence on Europe through the IMF, but in developing countries the US treasury department pretty much is the IMF.*

Well, yes ? Paul Krugman was opposed to the "stupidity" of Europe's economic policies, but from the wrong side. He opposed reforms to welfare states but was strongly in favour of large stimulus spending to "end this depression now". This is the same reasoning behind the UK's enormous budget deficit, unsustainable public finances, and current kick-the-can-down-the-road policies.

If Paul Krugman had been Treasury Secretary in 2002, would he have supported Greenspan in initiating the housing bubble or would he have opposed it? These are the decisions a Treasury Secretary has to cope with every single day. Krugman?s record does not suggest that he would make the right decisions.

Finally, can I make a suggestion for the US Treasury Secretary, since we're apparently allowing anyone to make important nominations? I nominate Ron Paul. He served his last day in Congress the other day so he's available. Maybe a famous fan like Kelly Clarkson should start a petition.

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