

I am grateful to the Swiss National Bank

NZZ am Sonntag interview with
Nobel laureate Paul Krugman

Nobel Opinion with Nobel laureate Paul Krugman, Distinguished Professor of Economics,
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Abstract

Nobel laureate Paul Krugman views negative interest rates in Switzerland as a valuable experiment. However, he opposes the free trade agreement between the EU and the US. “Anyone who’s never wrong isn’t taking enough intellectual risks”, Paul Krugman defends his pessimism during the Euro crisis. This interview was conducted by *NZZ am Sonntag* journalist Sebastian Bräuer in the course of a UBS Center Opinions event on 22 September 2016 in Zurich.

**Sebastian Bräuer, NZZ am Sonntag:
You criticize almost all economic
policy decisions. Why don't you take
responsibility yourself?**

Paul Krugman: Twenty-five years ago, I might have been interested in a political position. Not anymore. I'm very satisfied with my life. And I have no desire to spend my days in meetings.

**Not even if President Hillary Clinton
courted you for the position of
Secretary of the Treasury?**

I wouldn't be qualified for that job. Anything else wouldn't be worth it. There's hardly a better job than being a columnist for The New York Times.

**Recently, you warned that the U. S.
elections could mirror the events of
2000. What did you mean by that?**

It's crazy. One candidate, Trump, lies constantly, but he gets away with it. Meanwhile, Clinton is scrutinized for every word. It was the same with Bush and Gore. Trump's dishonesty is almost unprecedented in history, but the press was hesitant to call it out until recently. At the same time, the media has created a narrative of scandal around the Clinton Foundation, where none exists.

**Is the media really to blame here?
Some of Trump's supporters no longer
believe anything that doesn't match
their views.**

That's true. About 90 % of staunch Republican supporters are no longer reachable with facts. They've been conditioned for decades to believe that everything in The New York Times is a lie. Voter turnout and the performance of other candidates will be crucial. If too many young voters buy into the dubious idea that Clinton is a liar, they may stay home or vote for a third party. Then Trump could become president.

What's your prediction?

I think Clinton will win. Polls show she has about a 75 % chance. We have two Americas: one is vengeful, mostly composed of older white men; the other is diverse, including Hispanics, Black people, and women. I believe the diverse America is larger, but it will come down to voter turnout, and pivotal events could change everything.

**Would Trump really try to implement
all his ideas if he wins?**

He would try. Some things wouldn't work. You can't deport 11 million immigrants without turning the country into a chaotic police state. But who would explain that to him? He wouldn't listen. Trump is like a 15-year-old in a 70-year-old's body.

**Trump rails against free trade. In
March, you wrote that free trade
proponents exaggerated its benefits.
Do you agree with him?**

Both sides exaggerate in the international trade debate. Free trade has its advantages. Brexit, for example, will weaken the British economy. But we shouldn't claim that protectionism always leads to recessions. The benefits of free trade aren't as enormous as often portrayed.

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So Trump is right?

The problem with Trump's protectionist proposals isn't the measures themselves but the confrontations they would provoke.

He wants to impose a 45% tax on Chinese imports.

That would trigger a severe trade war with China. Other international agreements, like the Paris Climate Accord, would also be jeopardized by such confrontational policies. Protectionism itself would be the least of our problems.

Studies suggest that imports from China have cost the U. S. 2 million jobs. What's your view?

The exact numbers are debatable, but Chinese imports have cost jobs. We need to be honest: not everyone benefits equally. However, the answer isn't more protectionism, but better support for those affected. Denmark, for example, is as open as the U.S. but has a better social safety net.

What do you think about TTIP, the planned agreement between the EU and the U. S.?

TTIP isn't really a trade deal. It's about patent protection and arbitration panels, both of which can be reasonably questioned. Should we embrace the pharmaceutical industry's demands to act monopolistically in developing countries? Should we transfer government powers to private entities? I tend to oppose TTIP and wouldn't implement the agreement.

You predicted in 2010 that Greece would leave the Euro. Why did it turn out differently?

Economically, I was right. Greece was in a depression and is only minimally recovering now. But I underestimated the political willingness to keep the Euro together. Former Finance Minister Varoufakis had very concrete exit plans. But when I was there, people told me they feared a departure would plunge them to the level of African countries. I misjudged the psychology.

Many experts were wrong.

I was also surprised by how effectively ECB President Draghi managed to relieve pressure on other crisis countries. But if you're never wrong, you're not taking enough intellectual risks.

We should have used the crisis to raise inflation targets.

What are the biggest risks for Europe now?

Not something economists typically think about. We shouldn't worry about Grexit, but about the rise of nationalist, right-wing movements. It's dangerous when states abandon democratic achievements. In Hungary, institutions have been undermined, and Poland is wavering.

What will trigger the next global economic crisis?

I don't see a shock like in 2008 on the horizon. I don't know where the next crisis will come from. But the problem is that we'll have fewer options to respond. What will we do if China crashes? Central banks can hardly cut interest rates further. Stimulus packages have little political support.

You've always advocated for interest rate cuts, and now you're saying we've lost necessary room to maneuver because of low rates?

The approach wasn't too extreme; on the contrary, it wasn't decisive enough. We should have used the crisis to raise inflation targets. The intellectual response to the crisis was weak. Ask Paul Ryan in the U.S. or Wolfgang Schäuble in Germany how the crisis changed their worldview. You'll get nothing. We're poorly prepared for the next crisis.

You opposed the Swiss National Bank's (SNB) decision to abandon the minimum exchange rate. That decision was made precisely to regain room to maneuver.

Unfortunately, the opposite happened. The SNB lost room to maneuver due to the franc's appreciation. In general, I favor flexible exchange rates. But Switzerland has long been under deflationary pressure, and the central bank needs to respond. The minimum exchange rate was remarkably successful.

You criticize other countries, like China, for currency manipulation. Does that align with your stance?

In Switzerland, the manipulation was justified. In 2010, China didn't need to intervene. Demand was strong there, and there was no need to artificially depress the currency.

What do you think of negative interest rates in Switzerland?

I'm grateful to the SNB. With a negative rate of 0.75 %, the central bank has shown that there's more room with interest rates than we realized. I was wrong here too. I thought people would start hoarding cash, but that's not so easy. Switzerland is exploring new territory. From an academic perspective, I love it.

Few others are happy with the situation. Many economists warn of distortions.

Positive inflation rates are important. Switzerland doesn't have them. It should aim for 2–3 % inflation.

We're far from that. What would you recommend to the SNB?

Negative rates probably can't go much lower. Expectations need to be broken. That requires a combination of loose monetary policy and stimulative fiscal spending. I know it's politically difficult. Switzerland isn't in bad enough shape for that.

What's so bad about negative inflation?

Positive inflation rates have the advantage of allowing decisive action in a crisis. The central bank would then have the necessary room to maneuver. If there were a crash in France today, Switzerland would be hit hard, and it would be difficult for the SNB to respond with monetary policy.

Source

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You can find a recording of Krugmans' speech and other material on the topic on the Center's website: www.ubscenter.uzh.ch

About the speaker



Nobel laureate Paul Krugman

Distinguished Professor of Economics at the Graduate Center of the City University of New York, columnist for The New York Times, and sole winner of the Nobel Memorial Prize 2008 in Economic Sciences for his contributions to new trade theory and new economic geography