



# THE MIDWAY REVIEW

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# The World According to Paul Krugman

by Dmitri Leybman

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If genuine democracy requires, by definition, at least a rough equality of political influence or power among citizens in their attempts to control elites, then any significant economic inequality among citizens is an obstruction to democracy.... Because market systems produce inequality of income and wealth, they obstruct democracy. Q.E.D. That communist or other nonmarket systems also produce inequalities of income and wealth does not refute this conclusion.

—Charles E. Lindblom, *The Market System: What It Is, How It Works, and What to Make of It*

Paul Krugman is arguably the most famous and polarizing political columnist working in the United States today. A modern-day version of John K. Galbraith, Krugman is an unapologetically liberal economist in an academic discipline usually distrustful of government efficiency and effectiveness in the free market. If one were to search for an analogous propagator of economic principles and political ideology, one could do worse than name Milton Friedman. Both, after all, produced deeply influential work in their respective fields (Friedman in monetary policy; Krugman in international trade theory), both have written for a public audience without sacrificing their academic productivity, and most importantly, both were ideological figures who intertwined their scholarship with their own political ideals. Where Friedman put his faith in Capitalism and Freedom (to cite the title of his 1962 bestseller), Krugman is more skeptical of the free market, preferring to temper its efficiency with government policies designed to reduce social and political inequality.

Before the *New York Times* offered Krugman a position as an op-ed columnist in 1999, Krugman's output had been largely confined to *Slate* and *Fortune Magazine*, with some contributions to *New York Times Magazine*, *Mother Jones*, and *Financial Times*, to name just a few. Judging from his previous writing, the *Times* imagined they were hiring a center-left economist with impeccable academic credentials, an already wide readership, and an ability to convey a sophisticated understanding of economic issues in entertaining, well-polished prose. Most importantly, when his first article appeared in January 2000, Bush was still a "compassionate conser-

vative," the country's economic prospects were good, and 9/11 had yet to occur. Once the decade was underway, the relative serenity and bustling boom of the nineties were replaced by an increasingly polarized electorate, an unpopular war in Iraq, terrorist threats, the bursting of bubbles in the Internet sector and in housing markets, and lower consumer confidence.

Krugman's writing has changed too. His recently published book *The Conscience of a Liberal* is the argument of an economist who has turned to history to explain political dynamics. The book's title alludes to Barry Goldwater's 1960s work, *The Conscience of a Conservative*, which galvanized the burgeoning conservative movement whose political ideals continue to play a prominent role in American culture. Krugman's intention is to do the same for "liberalism," a word that has become a political epithet. *The Conscience of a Liberal* examines the growing political polarization occurring in the United States. Contrary to mainstream economic thought, Krugman disagrees that the rise in income inequality can be explained by technological change, immigration (a factor most economists don't even take seriously anymore), or the outsourcing of jobs. Most important, Krugman argues, are the normative and structural changes that have occurred in the United States since the 1970s. The rest of the book is his attempt to explain how a rising coalition of "movement conservatives" use racial rhetoric to divide the electorate even as they simultaneously enact fiscal policies designed to turn back the clock, pushing the country back into a New Gilded Age.

Krugman's analysis is controversial. As Krugman reminds us, economists tend to believe politics follows economics, not the other way around. When economists look at the current growth in inequality, the

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usual explanations cited minimize the importance of cultural and political change in favor of quantifiable factors that tie in with economic theory. For example, if it were cheaper to manufacture a good in China, rather than in the United States, almost any profit-maximizing firm would seize the opportunity to accentuate the amount of money it could make from its product. Because manufacturing jobs were the first outsourced jobs, it should not be surprising to find that employment levels and wages in those industry have declined to keep them competitive with foreign competition. Skill-intensive jobs, the kind that require college training and long-term human capital investment, are the ones that will be more valuable on the job market because there are fewer substitutes to it in other foreign countries.

Krugman suggests far more malicious forces in play. Since the 1970s, a growing movement of radically reactionary conservatives has overtaken the leadership of the Republican Party. This movement is led by manipulative figure-heads with radical ideals for the country, ideals that would overturn the progress made by the New Deal enacted by Roosevelt in the 1930s. What economists see as the inexorable workings of the market, Krugman sees as a massive overhaul of progressive public policy threatening the basic egalitarian ideals of democracy. As the quote at the top page makes clear, free market interactions are not moral or immoral; rather the market's behavior allocates resources efficiently without any thought to the equality among citizens that liberal democracies demand.



One of the problems with his argument is his inability to explain whether the correlation between vast economic change and a radical shift in Republican ideology can be used to explain the causality of rising incomes. Another problem is his inability to persua-

sively counter explanations by University of Chicago Professors Kevin M. Murphy and Gary S. Becker, among a variety of others. Murphy's careful work explained the changes in income from the very same persuasive perspective that Krugman denies: namely that importing of manufacturing goods has forced lay-offs and lower wages.

Since income inequality can be antithetical to democratic participation, Krugman's attack on mainstream economic thought does deserve attention and analysis. And it seems as though some economists are coming to agree with his position. For example, economists Emmanuel Saez and Thomas Piketty have studied long-term data on incomes in the United States, finding possible explanations for rising inequality in wages because of institutional norms and political changes. The idea that the Republican Party has shifted in ideology has had many proponents even before Krugman laid it out in this book. It's not an original contribution, especially because he carelessly overlooks the intricate interactions between both Republicans and Democrats in their own transformations. In other words, the book's perspective on history is so biased, so narrow-minded, so self-important, that balance is completely omitted. In the process, Krugman damages any authority his analysis might have for the reader.

But it would be misguided to dismiss the book's importance. It is full of ideas, misguided or not, that need to be debated and understood if the strength of our government is to be preserved. When economists talk about economics, political factors are too often absent from their series of equations, utility functions, supply and demand curves. Their absence is for a good reason: politics simply can't be quantified in terms economists are used to employing. But not everything that matters can be counted. And in economics, perhaps it is we who have been overlooking the essential political components shaping our economic destinies. \*\*



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