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Laudatio for Paul Krugman

Ladies and Gentlemen, friends of the Department of Economics of the University of Munich!

We have gathered here tonight for the sole purpose of celebrating a great scholar, and certainly a future Nobel- prize-winner, Paul Krugman. It is appropriate that we do so - since science is the most Noble of all human endeavors, and we know that economics is the one of the most important of the sciences. For one thing just as our current opulence would be unthinkable without the knowledge that accumulated since Adam Smith's days, our future well being will depend to a considerable degree on the contributions of the likes of Paul Krugman.

Let me remind you - if I may - that a civilization that does not adequately honor its intellectuals cannot possibly thrive - indeed - is doomed to fail. So in the act of giving this prize we ourselves gain as much as the one who receives. For the tribute enables us to affirm our dedication to raising the human spirit. - And Paul Krugman has done much to raise the human spirit! This Einstein of the economics discipline - as we well know - has turned many a common wisdom on its head.

Consider that in the 1950s and 1960s, the U.S. economy enjoyed steadily rising real wages for the average worker, a steady reduction in inequality of incomes, and a widespread sense of optimism about the future; in the 1970s, 1980s, and 1990s, in contrast, the economy was afflicted with stagnant or falling real wages, a sharp increase in income inequality, and widespread pessimism about the future.

Both policy-makers and concerned citizens turned to economists for diagnoses of the post-1970 malaise, and for prescriptions for dealing with it; academic economists able to write for the general public suddenly were in demand. The first academic economist to gain a widespread readership was Milton Friedman; his monetarist nostrums, although at least partly put into practice by U.S. policy-makers, did not bring back the golden age of the 1950s and 1960s. The stage was set for Paul Krugman. Not since Friedman has anyone launched such a powerful crusade to shatter economic myths. And as Friedman - he too - resonates far beyond the ivory tower by informing public opinion.

Throughout the 1990's, Krugman has published articles in such "middlebrow" publications as the New York Times Magazine and Foreign Affairs. Unlike Friedman, Krugman has not acquired a large group of disciples. Instead, he has taken on the role of an iconoclast, attacking popular remedies that

he sees as based on fallacious thinking. Most politicians, he argues, use economic theories the way a drunk uses a street lamp - for support, not illumination.

The Long Island-reared Krugman published his first major article in 1979, at age twenty-six. His early academic work, part of the new trade theory, showed that government assistance could help a country gain comparative advantage in a particular industry. U.S. dominance of the commercial aircraft industry, for example, stemmed, not from any inherent American advantages, but from the stimulus provided, in the 1940's and 1950's, by massive defense department spending. In writing for a wider readership, however, Krugman criticizes the notion that the government either should or could make the U.S. more "competitive" in international trade. To modify classical economic theory, he insists, is not to scrap it completely.

Krugman adopts the seemingly counterintuitive position that the expansion of international trade since the 1960's is not primarily to blame for the stagnant real income of the average American worker; to prove his point, he argues that only a relatively small part of the U.S. economy, is involved in international trade. Prodded by demagogues, the average American remembers the threat posed to Ford and General Motors by the alien menace of Toyota and Honda; the threat posed to Sears Roebuck by the domestic menace of WalMart is forgotten by those not in retail trade. California's aircraft industry was hurt more by declining demand (with the post-Cold-War cuts in defense spending) than by any competition, foreign or domestic.

Since international trade is not the chief cause of the U.S. economic malais, Krugman argues, any economic cure based on protectionism will not help the patient. He deplores what he sees as the misuse of his New Trade Theory to justify the kind of protectionism that can easily lead to a trade war: a trade war is, in Krugman's word, "a conflict in which each country uses most of its ammunition to shoot itself in the foot."

In discussing productivity and technology, Krugman blames post-1970 technological advances for much of the increase in wage inequality, and stagnation in average real wages. He makes clear that he does not see technological advance as automatically leading to the kind of rising productivity that lifts everybody's living standards. He suggests that post-1945 technological change was able to do the latter because it was spread along a broad front, not concentrated in the computer field as post-1970 improvements were. He sees technological change as one cause, although by no means the only one, of the tendency for superior performers in many professions to gain rewards far in excess of those obtained by the merely competent. Ultimately, Krugman prefers an honest admission of ignorance about the roots of the post-1970 malaise to arrogant certainty. In other words, it's not so much what we don't know that hurts: it's what we think we know that just isn't so.

Ladies and Gentleman, it should be obvious to you that, by crossing swords with such greats as David Ricardo or Paul Samuelson, Krugman has become one of the most eminent economists of our time. Greatness is often accompanied by controversy. Slaughtering sacred cows inevitably irritates, so we should not be surprised that Paul Krugman has been amply criticized - even attacked - sometimes outright viciously and obnoxiously, but he has retained his faith in human reason, in his brand of liberalism - at the same time remaining a protagonist of the market economy with a human face - advocating an economic policy that approaches problems - in his own words - with compassion and justice. Yes, with compassion and justice.

Paul, we are honored by your presence. We thank you for your inspiration. May you debunk more myths in the future. We wish you well and hope to see you soon in Munich again or perhaps, instead, in Stockholm, Sweden.