

Krugman and Growth Agnosticism

Back in 2004, Robert Lucas famously remarked: “Of the tendencies that are harmful to sound economics, the most seductive, and in my opinion the most poisonous, is to focus on questions of distribution.”

Ten years later, Paul Krugman replied:

It’s fairly common for conservative economists to try and shout down any discussion of income distribution by claiming that distribution is a trivial matter compared with the huge gains from economic growth. For example, Robert Lucas:

Of the tendencies that are harmful to sound economics, the most seductive, and in my opinion the most poisonous, is to focus on questions of distribution.

The usual answer to this is to point out that we don’t actually know much about how to produce rapid economic growth — conservatives may think they know (low taxes and all that), but there is no evidence to back up their certainty. And on the other hand, we know how to make a big difference to income distribution, especially how to reduce extreme poverty. So why not work on what we know, as at least part of our economic strategy?

Krugman’s apparent embrace of this growth agnosticism is doubly puzzling. After a lifetime of study, a brilliant Nobel laureate *still* lacks anything useful to say about fostering growth? How is that even possible?

The puzzle amplifies, though, when you recall that Krugman has endorsed several specific policies with large, clear-cut growth effects. Most notably:

1. Krugman strongly advocates housing deregulation. The whole point of this literature is that housing regulation hasn’t merely made housing expensive; it has retarded economic growth by discouraging Americans from relocating to high-productivity regions of the country. You could say, “This is only a level effect, not a growth effect,” but that’s a semantic quibble. Regulation is now so strict that you could noticeably raise measured

growth for decades with moderate deregulation.

2. Krugman has strongly advocated labor deregulation, at least in Europe and the Third World. Again, the whole point of this literature is that labor regulation hasn't merely made labor expensive; it has retarded economic growth by (a) keeping unemployment rates permanently high in many European countries, and (b) suppressing formal employment in many Third World countries. While you can protest, "Moving French unemployment from 10% to 5% is a one-time gain, not a growth effect," that's semantics. After labor deregulation, excess unemployment would still take many years to disappear; hence, measured growth would be markedly higher for years to come.

Furthermore...

3. While Krugman seems to oppose serious deregulation of immigration (for brow-furrowing reasons), he never questions the textbook logic showing that such deregulation would lead to massive increases in Gross World Product. Indeed, the case for immigration deregulation is isomorphic to Krugman's case for housing and labor deregulation: The status quo forces business to waste big golden opportunities. The only difference is that estimates of the economic gains of immigration deregulation are *much* bigger.

What's really going on? Frankly, I think that Krugman's growth agnosticism is just an act. Intellectually, he knows very well that governments could readily boost growth if they wanted to. Emotionally, however, Krugman finds such reforms uninspiring. Taking from the rich and giving to the poor is *fun*; freeing the rich and poor to cooperate for mutual benefit, not so much. Krugman thus reminds me of my friend and debate partner David Balan, of whom I've said:

Since my opponent is a serious thinker, I know that he actually agrees with much of what I've just told you. So where does he go wrong? Emphasis. Yes, David favors allowing a lot more immigration and a lot more construction. He grants that these policies will enrich society in general, and the poor in particular. But none of this excites him. Why not? I'm no mind-reader, but my best guess is that David idolizes Big Government, and resents free markets. So when he thinks about a grave social problem like poverty, he doesn't want government to get out of the way and let the free market work its magic. He wants government to heroically solve it with redistribution. Even when he knows that government

viciously victimizes the poor, he wants to hastily concede the point, then talk about redistribution at length.

On reflection, then, Lucas' words are even deeper than they seem. Focusing on questions of distribution doesn't merely seduce and poison economic policy. Focusing on questions of distribution seduces and poisons the minds of fine economists, too.
