

Jahangir, Junaid B.

Book Review

Book review: Krugman, P. (2020): Arguing with Zombies, New York, NY, USA (416 pages, W.W. Norton and Company, hardcover, ISBN 978-1-324-00501-8)

European Journal of Economics and Economic Policies: Intervention (EJEEP)

Provided in Cooperation with:

Edward Elgar Publishing

Suggested Citation: Jahangir, Junaid B. (2022) : Book review: Krugman, P. (2020): Arguing with Zombies, New York, NY, USA (416 pages, W.W. Norton and Company, hardcover, ISBN 978-1-324-00501-8), European Journal of Economics and Economic Policies: Intervention (EJEEP), ISSN 2052-7772, Edward Elgar Publishing, Cheltenham, Vol. 19, Iss. 1, pp. 174-176, <https://doi.org/10.4337/ejeep.2022.01.12>

This Version is available at:

<https://hdl.handle.net/10419/277541>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



<https://creativecommons.org/licenses/by/4.0/>

Book review

Krugman, P. (2020): *Arguing with Zombies*, New York, NY, USA (416 pages, W.W. Norton and Company, hardcover, ISBN 978-1-324-00501-8)

Junaid B. Jahangir
MacEwan University, Edmonton, AB, Canada

As an undergraduate student in the 1990s, Paul Krugman's work, along with that of Joseph Stiglitz, was instrumental in my studies in economics. As an instructor in the 2020s, I was excited to find that the Nobel Laureate's book *Arguing with Zombies*, which is mainly based on his *New York Times* columns, helped to make sense of the economic orientation and situation in my home province, Alberta, where the United Conservative Party (UCP) came to power in 2019. The UCP government was extremely concerned about the previous government raising the minimum hourly wage by more than C\$4 in fewer than three years but showed no qualms in reducing corporate tax rates by 4 percentage points, eliminating the carbon tax and cutting spending. This approach continued through the COVID-19 pandemic, as the government cut the post-secondary budget by 20 per cent over a four-year plan, and proposed a 3 per cent wage rollback for overworked nurses in the midst of the ongoing pandemic, while announcing investments to the tune of billions of Canadian dollars in Keystone XL, a risky and unnecessary oil pipeline.

Krugman's book helps us to understand how such an economic orientation, which rests on pandering to corporate interests and harming public interest, arises from zombie ideas that are promoted by rich right-wing individuals, who fund partisan think-tanks (Krugman 2020: 3), who argue that governments should create privately funded and privately managed health-care systems, who believe that higher deficits are due to higher spending and not to lower taxes, and who insist that cutting taxes on the wealthy and the corporations induces them to work hard and invest respectively (ibid.: 195, 225 and 229). All of this is based on the fanatic appeal to free-market orthodoxy, which, according to Krugman, dies hard (ibid.: 91). This is because, starting from ECON 101 (the principles-level economics course), instructors teach students the principles of neoclassical puritanism that people are rational and free markets work, as prices move to match supply and demand (ibid.: 138). Krugman not only highlights zombie ideas, he also systematically destroys them. He states that, based on cognitive psychology and behavioural economics, people are not rational, utility maximization is a foolish idea, equilibrium is ludicrous, and perfect competition is irrelevant for many industries (ibid.: 146 and 402). Besides panning modern monetary theory as an odd doctrine rife with confusions, and upholding the case for free trade, he comes close to the ideas espoused in heterodox economics by Komlos (2019) and Reardon et al. (2018).

Krugman argues that pushing for balancing the budget during a recession only makes it worse and that fears of spiralling debt during a recession are exaggerated (Krugman 2020: 6 and 204). He states that some things like social security and healthcare insurance are better provided by the government than the private sector (ibid.: 15 and 30). In the context

of healthcare, Krugman asserts that expenditures are not driven by demographics but medical progress that includes procedures like dialysis and open-heart surgeries (ibid.: 17 and 36). He rejects the idea that governments are based on bloated bureaucracies while the private sector is lean and efficient by stating that, in healthcare, competition leads to higher costs and lower quality, and that, even in the US, government-provided healthcare is cheaper, more efficient and has less bureaucracy than private insurance (ibid.: 22, 31 and 40).

Returning to the obsession with fiscal austerity, Krugman tempers the basic ECON 101 lesson that budget deficits crowd out private investment. He argues that the government puts idle resources to work so government borrowing does not lead to a crowding-out effect in a depressed economy with excess capacity (ibid.: 96 and 118). Additionally, he states that when the economy is depressed, budget deficits do not increase interest rates and therefore it is an error to focus on deficits when the economy is down and unemployment is high (ibid.: 96, 105 and 208). He also contends that low interest rates mean low returns on private investment, which means that diverting funds towards public investment in neglected infrastructure should be a priority and that any spending cuts should wait until the economy is out of a recession (ibid.: 96, 204 and 205). On the other hand, Krugman cautions that when the economy is not at the zero lower bound of interest rates, then budget deficits raise interest rates and crowd out private investment and that when the interest rate becomes greater than the economy's sustainable growth rate ($r > g$) then there is a likelihood of spiralling debt (ibid.: 153).

Shifting from cutting spending to lowering taxes, Krugman states that the most obstinate zombie is the idea that taxing the wealthy is destructive or that lowering taxes would spur growth (ibid.: 4). In Canada, the Fraser Institute pushes the narrative that higher income taxes would discourage entrepreneurship or reduce incentives to work, save and invest (Ferede 2018; 2019). By contrast, Krugman argues that business decisions are not so sensitive to tax cuts and that corporations use them to buy back stocks instead of expanding capacity and employment (Krugman 2020: 227). He mentions that Nordic countries have higher levels of entrepreneurship, as the individuals know that, should the business fail, they won't lose healthcare or fall into poverty (ibid.: 323). He adds that cutting taxes for the rich leads to deficits and since a large chunk of corporate profits is based on economic rent, lowering taxes simply adds to the rents but does nothing to raise wages (ibid.: 224, 228 and 351). Instead, he highlights the contributions of top economists like Diamond, Saez and Romer, who have argued for the optimal top tax rate to be 73 per cent, 80 per cent or even higher, based on the ideas of diminishing marginal utility and that high income rests on monopoly rents (ibid.: 234, 235 and 236). Continuing with this line of thought, he mentions that wealth taxes, as proposed by Senator Warren in the US, would not lead to tax evasion if they were applied to all assets and were adequately enforced (ibid.: 239).

Krugman highlights the inequality denial industry, which pushes the zombie ideas that inequality isn't rising or that it does not matter (ibid.: 259). Such ideas may even be found amongst economists in academia, although that is changing with the work of top economists compiled in a book edited by Blanchard/Rodrik (2021). The editors argue that the contributors widely agreed to focus on inequality beyond just poverty reduction, and that economists should be promoting policy reform on tackling inequality instead of making the usual naysaying arguments that 'we can't afford it', 'we don't have enough evidence' or that 'incentives will be distorted' (Blanchard/Rodrik 2021: xiii and xx). On his part, Krugman aims to correct the misperception that rising inequality is due to the highly educated doing better than the less educated and pans the idea that it is explained by technological progress, as robots replace workers (Krugman 2020: 260). Instead, he opines that rising

inequality is due to the huge income gains of the tiny elite instead of the modest gains of college graduates, and due to the diminished bargaining power of labour, which explains why the wages of ordinary workers have stagnated despite rising productivity and increased work hours (ibid.: 92, 269, 273, 284 and 289). He rejects blaming workers for their own plight by stating that such zombie ideas deflect from the phenomenon of soaring corporate profits and bonuses, as employment and wages stagnate (ibid.: 168).

Finally, Krugman warns that if greenhouse gas emissions are not limited then none of the above issues of healthcare spending, budget deficits and inequality will matter in the long run (ibid.: 327). He draws out the hypocrisy of free-market ideologues, who don't want government regulation to limit greenhouse gases but are fine with subsidizing uncompetitive coal-based plants at the expense of wind- and solar-based clean energy, whose costs have declined (ibid.: 330, 331 and 333).

In a nutshell, Krugman teaches both instructors and students of ECON 101 to avoid upholding simplistic axioms on rational individuals, unfettered markets and perfect competition, which lead to prescriptions against the minimum wage and in favour of lower tax rates. He emphasizes that advocates of unrestricted corporate power and minimal wage protection have been getting away with it for far too long (ibid.: 318). To summarize, Krugman helps readers understand that it is time to reject spending cuts on healthcare and education, to push against lower corporate taxes and push for wealth taxes, to support the carbon tax and reject funnelling billions into pipelines, and above all to temper the textbook neoclassical paradigm in ECON 101 with a heavy dose of reality. Additionally, as Krugman's book is mainly based on his *New York Times* columns, it ensures topicality and sets a realistic tone but it may also imply that more technical explanations and econometric support are outside its scope, as the book is aimed at a general audience.

REFERENCES

- Blanchard, O., Rodrik, D. (2021): *Combating Inequality*, Cambridge, MA: MIT Press.
- Ferede, E. (2018): The effects on entrepreneurship of increasing provincial top personal income tax rates in Canada, Fraser Institute, URL: <https://www.fraserinstitute.org/sites/default/files/effects-of-personal-income-tax-on-entrepreneurship-in-canada.pdf> (accessed 13 September 2021).
- Ferede, E. (2019): The revenue effects of tax rate increases on high income earners, Fraser Institute, URL: <https://www.fraserinstitute.org/sites/default/files/revenue-effects-of-tax-rate-increases-on-high-income-earners.pdf> (accessed 13 September 2021).
- Komlos, J. (2019): *Foundations of Real-World Economics: What Every Economics Student Needs to Know*, 2nd edn, New York: Routledge.
- Krugman, P. (2020): *Arguing with Zombies*, New York: W.W. Norton.
- Reardon, J., Madi, M.A., Cato, M.S. (2018): *Introducing a New Economics*, London: Pluto Press.