AN INTERVIEW WITH PAUL KRUGMAN

BY JOEL KURTZMAN

PAUL KRUGMAN, THE Ford Professor of Economics at the Massachusetts Institute of Technology, has been called "The Great Debunker." He won that title from journalists and colleagues for subjecting the gloomy profession's fads and fashions, and much of its commonly accepted wisdom, to the sharp edge of his analysis.

In one of his books, "Pop Internationalism" (M.I.T. Press, 1996), he argued that much of the conventional thinking about trade was simply wrong. Though pundits contended that competitiveness was a national issue, Professor Krugman said that it was actually a company issue. Countries do not buy or sell goods overseas; companies do. And while national economic policies might be important factors in determining what types of goods a country produces, in the end, he said, markets matter more.

Professor Krugman also took on the many politicians, economists and journalists who argued that America's chronic trade deficit with Japan was cause for alarm. The deficit, these observers said, attested to the fact that the United States was in decline.

Nonsense, Professor Krugman wrote. Though the United States may have its share of problems — an unequal distribution of wealth, for one — the trade deficit was actually of little material consequence, the professor said, since it represented so little of the country's gross domestic product.

While many people learned about Professor Krugman from his popular works — he writes for the on-line journal Slate and for Fortune magazine — the majority of his 16 books and 200-plus articles have been serious in tone and academic in focus. It is in these works that Professor Krugman has earned his place as a contender for the Nobel Prize.

Professor Krugman's best-known academic work examined the interplay of government and market forces. In it, he asserted that by intervening in the markets and offering incentives, governments could help create more powerful export sectors. Though many policy makers used Professor Krugman's arguments

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to justify a heavy-handed government approach to trade, his views were more moderate.

Professor Krugman also examined the notion that countries should erect barriers to keep jobs at home. While it was true, he wrote, that technologically advanced countries like the United States might lose some non-technical jobs to developing countries, this should not be a cause for long-term concern. The reason, he said, is that as jobs move to developing countries, wages there will rise. As a result, over time, many jobs will return.

In his career, Professor Krugman has won many distinctions. The most significant, the John Bates Clark medal, was awarded in 1991.

That prize is given every two years by the American Economic Association to an economist under the age of 40 who "is adjudged to have made a significant contribution to economic knowledge."

Professor Krugman, who is now 45, has described himself as brave and brazen. His Web site contains articles and accolades that show the delight he takes in puncturing many of his profession's long-held half-truths.

What follows are excerpts from a wide-ranging conversation with Professor Krugman that took place recently in his M.I.T. office.

S&B: *Some recent issues of Strategy & Business have included interviews with economists like Paul Romer and W. Brian Arthur on the notion of the new economy — why the world is different and will never be the same. And, as a consequence, why we should all change what we're doing and reorient ourselves and our thinking. I know you have some views on this subject that are a bit different. So, to begin with, do you challenge the idea that there is a new economy?*

PAUL KRUGMAN: In one sense, there is always a new economy. Things are always changing. There are always new industries and new products. After all, we've had massive technological innovations for more than 150 years now.

But I don't think the pace of change has accelerated. That's kind of an egocentric thing. We look at our changes and we say "Wow, aren't those spiffy?" and forget how incredible the changes were that went through the lives of our parents and our grandparents and our great-grandparents.

Look what's happening to Asia right now — it's fundamentally something that John Maynard Keynes would have recognized. We're seeing financial crises, bank runs, a straight-out 1930's-style depression in Japan. It looks to me as if books written 60 years ago on economics are extremely relevant to the travails of the world right now. Of course, there is plenty of change in today's economy, but there's a lot more underlying stability in the rules of the game than most people imagine.

S&B: *Does that orientation explain how you were able to see the looming problems in Asia far earlier than almost anyone else? What were you looking at to get a sense of the trouble that finally surfaced last year?*

PAUL KRUGMAN: I was looking at the kinds of quantitative, boring measures that old-fashioned economists tend to use. Basically, I was looking at the labor force and capital growth, at how much resources these guys were throwing at their economy. And what I found out — actually, what other people had found out; I was reporting on their work — was that although the growth was very fast, the resources that they were putting into the economy were also growing very fast. So, it looked a lot like it was more perspiration than inspiration. That was very much at odds with the conventional view, which was that there was some radical improvement in the efficiency of these economies.

If you say it isn't really so much an improvement in efficiency as it is just a feat of mobilization, then you conclude, "Well, there are limits to that." And so I thought that the growth would slow down. I did not forecast a catastrophe. Actually, I say I was 90 percent wrong — it's just that everybody else was 150 percent wrong.

But at least what I saw, simply based on this kind of number-crunching assessment, caused me to question the view that Asia was a miraculous place, where the laws of gravity did not apply. Even during the days of rapid growth, you could say that was a myth, just by carefully looking at the growth. So I was less surprised than other people when the region stumbled into a crisis — although I have been as surprised as anyone by the incredible depth to which the crisis has gone.

S&B: *When people looked at Asia, they often thought it was indicative of the* *new economy. It had all the right features, including just-in-time manufacturing and distributed manufacturing. To be sure, computers hadn't permeated society as much as here, and software wasn't as big in terms of the overall mix. But it was thought of as a sort of New Age manufacturing place, where the business cycle had been repealed, particularly with regard to Japan.*

PAUL KRUGMAN: Again, if you go back to Keynes, or names that are less well known to the public, like Modigliani — people who basically made sense of the Great Depression and what followed — one thing you discover is that their work is almost abstract; there's not a lot of specifics. They don't talk about the steel industry, the farmers, the railroads and all of that. It is at a higher level of abstraction, a higher level of generality. And that approach was right — because the same rules apply, regardless of the specifics.

So, we are a microelectronic-driven service economy, whereas our grandfathers lived in a diesel-driven manufacturing economy. Nonetheless, a bank run plays out pretty much the same way in both places. A financial crisis plays out pretty much the same way. And a depression looks pretty much the same. It may be empty shopping malls, instead of closed factories, but it's still a depression.

S&B: *In your reading of Asia, what do you think is going to happen?*

PAUL KRUGMAN: We're going to see a sort of minor key replay of the 30's. It's a severe slump, and I'm starting to believe that Plan A has not worked. Plan A was to try to satisfy the nervous markets by stern austerity measures. Basically, countries were going to show that they could clean up their acts and then confidence would return and things would stabilize. It was worth trying. But I don't think it's happening.

What's probably going to happen is what has happened before. If you go back to the good old days, back to the world economy before the First World War, you would be amazed, in some ways, about how modern the rhetoric was. That is, it was an era of globalization. It was the steam engine and the telegraph that were the great driving forces. But it was already a worldwide economy, one in which New Zealand butter was served on tables in London and communication was, more or less, instantaneous.

People believed that the change was inexorable — that the forces of globalization were making the days of nationalistic economic policies irrelevant. And that free markets were going to have to be allowed free rein.

The high-water mark was 1913 — nothing disrupts global markets quite as well as submarines.

There was a big push to rebuild those global markets in the 20's. But then came the 30's. In the face of economic crisis, many countries simply broke the rules. They defaulted on their debts and they imposed controls on foreign exchange trading, among other things.

And the fact was, in that crisis atmosphere, the countries that broke the rules generally did better than those that did not.

For example, Britain, which abandoned the gold standard, had a less severe depression than the United States did. Nazi Germany established elaborate controls on foreign exchange. Why was Hitler popular? The answer is that his economic policies were probably inefficient, but they did bring back full employment.

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If you look at Latin America, Cuba basically tried to be a good country and stayed on the gold standard and the depression there went on forever. Meanwhile, places like Argentina sort of turned their backs on the world and staged partial recoveries.

Later on, the policies that countries followed in the 30's came back to haunt them. They turned out to be sources of long-term distortions. Exchange controls, and things like that, eventually became sources of managed corruption. But in the heat of the crisis, they served a purpose.

And, as I said, I think we're heading for a minor key replay of that.

S&B: *Globally or just in Asia?*

PAUL KRUGMAN: There will be some emulation outside Asia.

The Asian countries may feel that they not only need to turn their backs on the world market, but that they also need to limit that market. In other words, they may not allow capital to move in and out as freely as they used to and they may try to have a little more industrialization based on the domestic market, and so on. A lot of it will be bad policies. Nonetheless, we'll see some emulation.

It would not surprise me if people look back and see 1997 as the high-water mark of this global free market economy, in the same way that 1913 was.

S&B: *Is part of the problem in Asia simply bad timing — in the sense that had the troubles come sooner, the countries there might have been in better shape to ride them out?*

PAUL KRUGMAN: Like everybody else, I'm analyzing on the fly here. Each time we think that we have surmounted the worst, it turns out there is another problem. No one understood just how fragile the banks of these countries are, which is kind of an Asian values problem.

By that, I mean that instead of having good laws that establish fiduciary responsibility and make it clear who owes what to whom and just when a business goes bust, everything is done on the basis of handshakes and whom you know; and that has turned out to serve them very badly in a crisis. That's one thing that we didn't anticipate.

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And if you ask why their crisis is so much worse than anything else we've seen, one answer is that this is a region that had a very rapid development of its economy without a correspondingly rapid development of commercial law.

By the way, that's even true of Japan. In retrospect, a lot of the unique features of Japanese industrial structure, which people attributed to some superior insight, have a lot to do with the fact that it's very hard to get a contract enforced in Japan. One good reason for long-term relationships between customers and suppliers is that getting a court to enforce the contract between a customer and a supplier is quite hard. Given that reality, all you can do is deal repeatedly with people, building up long-term relationships.

So you have this weakness of business law and this weakness of bank regulation. All of that, you could say, is almost a product of extremely rapid development. Africa has weak business law, too, but it doesn't count for much in the world economy. Here you have some places that very rapidly developed, and their institutional structures didn't keep up with it.

The other thing is that the Japanese malaise makes this much worse. If Mexico bounced back quickly after its '95 crisis, a lot of it had to do with the fact that there was a United States economy right next door that was perking along quite happily. For the Asians, by contrast, the nearest big advanced economy is in pretty bad shape itself. And that has come as a surprise — I don't think anybody, even the biggest Japan skeptics, would have imagined that this modern advanced economy with a stable Government would manage to find itself in its seventh year of no growth.

S&B: *How do you sort through this Japanese mystery?*

PAUL KRUGMAN: Japan bothers me intellectually. Indonesia is a human tragedy. Japan is not, at least so far. But Indonesia is, in some sense, comprehensible. They owed an awful lot of money to foreigners, who demanded it back when they got nervous. And it's very hard to deal with that.

Japan doesn't have any foreign debt. It doesn't have an inflation problem to constrain the Government. While there is a fair amount of corruption, Japan has a democratic Government with vast reserves of legitimacy. So how can it be in this mess?

Part of their problem is political indecisiveness, an unwillingness to face up to things. But that's secondary.

The basic problem is intellectual. They — and, for that matter, many of the people giving them free advice — have failed to appreciate how depression economics works. Japan has depression economics.

S&B: *Can you make that case? After all, the official unemployment rate is still just 3 percent.*

PAUL KRUGMAN: That's a fake number. If they counted unemployment the same way we do, the number would be above 7 percent. And if you count the workers who hold jobs, but basically don't do anything, you will probably find that the number is 9 or 10 percent, at least.

My guess is that their economy is running at least 8 percent to probably more than 10 percent below its full employment level of output. It's not 1933, with the United States economy being 35 percent below, but it is still pretty bad.

When I say it's depression economics, what I mean is that the Japanese are not managing to persuade their businesses and consumers to spend enough of their incomes — and that is the core of the issue. The usual tools that you can use to fix that problem are not working. They've tried public works, in a sort of halfhearted way, thinking that would jump-start the economy, and it didn't. They've cut interest rates down almost to zero, and that hasn't done it.

And this is a situation we have not seen since the 30's. The United States has had a number of recessions since World War II, but all of them responded fairly quickly once the usual buttons were pushed. We had a terrible recession in '82, with 11 percent unemployment at the peak. But when the Fed cut interest rates in the summer of '82, within five months the economy turned around, and '83 was a boom year. That's not happening in Japan.

The scariest question for the world economy right now is, how can that happen? Indonesia does not have the wherewithal to pull itself up by its own bootstraps. Japan certainly should. Their problem is that they don't understand what's happening. And because they don't, their policies are ineffectual.

S&B: *But if you go to Japan, everyone is talking about what's wrong with the country. And there's a parade of people from the West coming in to tell them what's wrong.*

PAUL KRUGMAN: Unfortunately, a lot of this advice is contradictory. We've forgotten what depression economics is about. We need to say that if you have sufficiently bad management or sufficiently bad luck — and the Japanese have had a lot of both — then you can stumble through the looking glass, into an economic universe where many of the usual rules are reversed. Where thrift is a vice. Where tough-minded policies, the kind that we usually plead with a government to take, can be exactly the wrong thing. So that when Hashimoto said, "We are going to be responsible about our long-term future and raise taxes," that was a courageous decision and, unfortunately, stupid.

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They have a misunderstanding of what the clear and present danger is.

Going back to 1992, they clearly had a problem of crazy values in real estate and stocks, which had a lot to do with bad banking and so on. And the bubble burst. That was a huge drag on the economy, just as it would be if our stock market crashed now. And what they should have done then was to cut interest rates, to keep demand high.

What they did instead was to say, "Well, it was excessive borrowing that gave rise to the bubble, which is the source of our problems. So we had better not make money too easy now." It's like the joke about the motorist who runs over a pedestrian, gets out of the car and says, "Oh, I'm so sorry. Let me undo the damage." And then backs up and runs over the poor guy again. The bubble was history. It happened. It was a really bad thing. But they certainly reacted the wrong way.

S&B: *How much of a role does bad luck play in all of this?*

PAUL KRUGMAN: It plays a very important role. After all, one core problem the Japanese have is a prospective shortage of Japanese.

Here you've got a society that is aging very rapidly. They could cure that if they would allow a lot of immigration. But they're not going to do that. Many ordinary Japanese are at that stage in their life cycle where they're saving a lot for their retirement. Similarly, the Government is reluctant to run big deficits because it knows, just like us with Social Security, that it will have plenty of bills coming due as the population retires.

At the same time, it's hard to get a lot of big investments for a country whose working-age population has peaked and whose work force is expected to decline steadily in the next several decades. It's hard to have enough investment demand to use your savings under those circumstances. That's not an economic policy issue exactly — it's just the way they find themselves.

There is an answer, which basically is that money has to be very, very cheap, both to discourage people from saving and to encourage other people to invest. But between the demography and the banking problem and so on, the interest rate that they would need to keep demand up turns out to be negative.

I sat down to work this out myself — taking the most orthodox, dotting your i's, crossing your t's analysis as I could, saying that I was just going to follow this right to its logical conclusion, regardless of what that turned out to be. What popped out of that analysis was the conclusion that what this economy needs is inflation.

There are various ways to explain that. Suppose that Japan had not been so assiduous at limiting inflation in the 80's and the early 90's. Suppose that Japan had come into this period with 5 percent inflation. They would have no problems, or they would not have their current problems, because by cutting interest rates close to zero, when there is 5 percent inflation, they would have provided a huge incentive to invest and a huge disincentive to save. They would have had no difficulty in keeping demand up.

Instead, given the intersection between demography, other structural problems and a responsible policy toward inflation at exactly the wrong time, they really put themselves into a corner.

S&B: *So what would you recommend?*

PAUL KRUGMAN: Well, if we believe in our analysis, what it says is that the Japanese should announce that their policy is 3 percent inflation for the next 10 or 15 years. In the same way that many countries try to commit themselves to stable prices, the Japanese should commit themselves to moderate inflation over the long run.

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And then they should follow through. If the economy recovers and gets to the point where prices are starting to rise, you don't choke it off. You don't say, "Oh, well, we must have price stability." You don't revert to conventional policies. Rather, you say, "Good. This is the inflation we promised to deliver."

S&B: *But with a retiring population on some sort of fixed income, and more people over 65 than under 25, how can you tolerate politically any rate of inflation?*

PAUL KRUGMAN: One answer is that because this would expand the economy, it would leave almost everybody better off, in spite of the apparent inflation tax.

The other answer is to admit that this is indeed a problem. It is very difficult to come up with economic policies that don't at least make somebody think he's been burned by them.

If I were in charge, if I were the Robert Rubin of Japan, I would try to implement this proposal. But I would also try everything else you could think of. You should throw everything, including the kitchen rice cooker, at this problem. They should have public works programs. They should have tax cuts. They should have investment subsidies.

They should do all these things because, as correct as I think I am, there's some uncertainty about what the right solution is. But what is clear is that this is an economy with inadequate demand. So they should try everything they can.

Again, this is depression economics. Keynes suggested filling bowls with money and hiding them where enterprising boys might find them. That's not the best use of the money, but any use is better than none. And Japan is basically in that situation.

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S&B: *Let's put the problems of Japan and the rest of Asia aside for now and concentrate more directly on the broader question of the new economy. When people talked about a new era of competitiveness, particularly involving the competitiveness of nations, you took a very skeptical approach in your writings. Why?*

PAUL KRUGMAN: Competitiveness, if you really push it, is not a meaningful term. It's an illusion that countries are like corporations, competing with each other in a market.

The World Economics Forum used to have a competitiveness index that had no framework behind it and was meaningless. The forum has a new index that actually makes some sense. And the reason it makes some sense is that the people who now do it — basically Jeff Sachs — have redefined competitiveness in such a way that it has nothing to do with competing. It's the principle that words mean what I choose for them to mean.

The idea was dropped that there's any sort of sense in which Singapore's gain is America's loss, or vice versa. Instead, the index is based on a set of indicators that tends to predict a country's long-term growth rate.

The whole point is that if competitiveness means anything, it means that our standard of living depends not only on our productivity, but on our productivity relative to that of other countries. In other words, if they become more productive, then other things being equal, we are worse off. And that's just not the way trade works. So, "competitiveness" was a very primitive, actually mercantilist notion dressed up in modernist garb.

S&B: *So how would you define competitiveness?*

PAUL KRUGMAN: I wouldn't. I'm interested in long-run growth prospects and in short-run performance. And I don't need anything called competitiveness beyond that.

Now, when you get down to the level of an individual industry, I don't have any problem with saying that the United States is basically not competitive in growing coffee while it is very competitive in growing wheat.

But there are very basic reasons why a country always is competitive in some industries, in enough industries, in fact, to basically pay for its imports. That's what competitive advantage is about.

The idea, though, that you can somehow quantify an overall competitiveness, or lack thereof, of a whole economy is just misunderstanding Chapter 1 of the textbooks.

It's not only a very silly point of view, but an antediluvian point of view getting all dressed up in the latest business-speak fashions and dominating the business press for 10 or 15 years. The emperor really is and was stark naked, however.

S&B: *What do you look at then in terms of growth?*

PAUL KRUGMAN: Productivity. How much productivity is in the economy is almost the only thing that matters.

S&B: *But many people have said that productivity is mismeasured, that it doesn't take into account how much more complex products have become. That you get more features in a car today than you did 30 years ago. So, therefore, we are more competitive, even if we produced the same amount of things.*

PAUL KRUGMAN: There's no question that productivity growth is understated. But it has always been that way. And that's the important point.

We start to have something that you could call reasonable estimates of G.D.P. somewhere in the first half of the 19th century. And if you were to go over that whole 170-year stretch, you would consistently find qualitative technological improvements that no productivity index could capture.

> "THERE'S NO QUESTION THAT PRODUCTIVITY GROWTH IS UNDERSTATED. BUT IT HAS ALWAYS BEEN THAT WAY."

A productivity index basically measures the increase in the amount of the same old stuff that workers can make. And it has a very hard time keeping up with the ability to produce entirely new stuff. How do you compare the productivity of electricians with that of lamplighters? Or of airplane pilots with that of coachmen? That's been a problem all along.

The new economy view is that that's more true now than it ever was. I don't think that's right.

S&B: *Why not?*

PAUL KRUGMAN: I'll give you two tests that I use. One is the kitchen test. My wife and I just redid our kitchen. What we had in our house was a state-of-the-art kitchen, state of the art as of 1957, that is. It was a pain. Non-self-defrosting refrigerator, open pilot lights on the stove and so on. That said, it still basically worked the way a modern kitchen worked.

Now compare a 1957 kitchen with a 1916 kitchen, which probably had a coal-burning stove and an ice box. You had to have the iceman come with lots of ice to keep that working.

I think that the qualitative change between 1916 and 1957 was a lot larger than the qualitative change between 1957 and 1998. There are lots of examples like that.

Then there is the science fiction test. Take Jules Verne or Edward Bellamy and ask: How did the world as of, say, 1970 compare with what they envisioned? The answer is that it was vastly ahead of anything that the science fiction writers of the late 19th to early 20th centuries imagined. The actual progress in everything from medicine to communications to transportation just exceeded all expectations. It was just a much more elaborate, high-tech world than they thought possible.

Now take the science fiction projections of the late 1960's, particularly those for the year 2000 or thereabouts, like "2001, A Space Odyssey," the 1968 movie. And they feature routine commercial flights to outer space with hotels. They also have intelligent computers, and the Videophone is a routine service. If you look at the projections that people made of living standards, they expected that Americans would earn so much that working hours would be cut sharply, and what to do with leisure time would be a big problem.

Herman Kahn, the futurist, did a book in the early 1970's called "The Year 2000." Very useful. He has a list of possible innovations — there are 100 very likely innovations, 25 sort of unlikely ones and 5 blue sky ones. The 100 very likely ones he treats as pretty much sure things by the year 2000.

If you go down the list, you will recognize such things as cell phones, the Internet and faxes. But Mr. Kahn's list contains all kinds of things that haven't materialized. Radical new building materials. Undersea cities. Medical cures for cancer and overweight. Only about a third of what he thought were surefire things have come to pass.

We've actually had a slowing in the rate of fundamental technological change. We had very rapid change in just one sector, things having to do with microelectronics. That is a nifty area, but it accounts for a relatively small part of life.

S&B: *People would argue, though, that that particular sector has had an impact on every other sector. The new economy people would say that work itself is different, being increasingly virtual and distributed. And as a result, nothing's the same.*

PAUL KRUGMAN: Well, that is always true. It was far more true of the railroad.

S&B: *But can you have such a tremendous change in the way we do things without an attendant shift in productivity?*

PAUL KRUGMAN: There has been some rise in productivity.

S&B: *But the rate of growth has been fairly constant.*

PAUL KRUGMAN: That's because a lot of technologies that were sources of big productivity improvements have been played out. Microelectronics-related stuff happens to be fun, and it happens to affect the way that the chattering classes work.

My favorite example of an innovation that had a huge impact on the economy's productivity, but didn't get very much press, was freight containerization. Where have all the longshoremen gone? If you go to a major port, like Oakland's, what you see is this vast expanse that looks like a scene from a science fiction movie in which the human race has been wiped out. There are no people around, yet hundreds of thousands of tons of freight are being moved through there. That was an enormous change, but it wasn't something that caused a buzz. There may have been a magazine devoted to containerization, but if there were, it wouldn't have been as much fun as Wired magazine.

The truth is that during the postwar generation, we had a huge increase in productivity based upon technologies that we now take for granted: internal combustion engines, electric motors and so forth. Now, we're way into diminishing returns on further improvements from those technologies.

Since then, it's been primarily silicon that has been carrying the ball. And it's a pretty amazing technology, but it's a rather narrow-fronted advance.

S&B: *So is all the talk about the productivity increase in the new economy just hype?*

PAUL KRUGMAN: I think it's mostly hype. If the productivity growth over the last few years has been closer to 2 percent than to 1 percent, some of that is probably a blip. But even so, it's possible that there has been an acceleration from the 0.8 percent that we were achieving in the last decade to 1.3, 1.4 percent now. When you talk about an $8 trillion economy, that becomes a

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significant number. Certain things have changed a lot.

It's just that if you have a little perspective on the history of technology and the economy, you know there are always some sectors that are undergoing revolutionary improvements. That relatively smooth rate of productivity growth that we see in the economy as a whole is the product of revolutions in particular sectors. It's a moving thing. But, again, there's no particular reason to think that this is any more revolutionary than previous changes.

S&B: *What about the old measure of output per worker, per hour, pegged to some monetary unit?*

PAUL KRUGMAN: That's been going up at the rate of 1 to 2 percent a year.

S&B: *And measured that way, people's lives are getting better, in terms of earning power and so forth.*

PAUL KRUGMAN: Yes. And we know that, in some sense, those figures are understated. The way you can tell is if you ask the following: Would you be willing to live in the 19th century with what, by the standard indices, would be the same purchasing power you have now? And the answer is, clearly not. In fact, it's not clear that most of us would be willing to live as Vanderbilts or Rockefellers in the 19th century because of little things like antibiotics and bypass surgery and so on that make life rather better.

So it's understated. But what the numbers say is that productivity growth now is actually rather slower than it was in the first generation after World War II, when it was also understated.

> "WOULD YOU BE WILLING TO LIVE IN THE 19TH CENTURY WITH WHAT, BY THE STANDARD INDICES, WOULD BE THE SAME PURCHASING POWER YOU HAVE NOW?"

By almost any measure, the improvement and the change in the way that people lived between 1947 and 1973 was bigger than the change that took place between 1973 and today. Our sense that we live in a time of especially rapid change seems to be off-point.

S&B: *But then how do you explain why people are talking so much about the new economy? Business Week devoted an entire issue to the subject.*

PAUL KRUGMAN: A lot of it is because of the stock market boom. If stocks weren't so high, we wouldn't be so receptive to explanations of why everything is wonderful. There's a little bit of circularity there. A rising stock market generates all kinds of articles about the miracle economy and those articles help heat the stock market.

Then, too, we've had a particularly good business cycle period here. The expansion has gone on longer than I would have expected without inflation rearing its head.

And let's not forget just how trendy business coverage in the press tends to be. Two and a half years ago, downsizing was all over the pages. Every story was about the massive loss of jobs, even though anyone who looked at the underlying statistics knew that we were creating jobs a lot faster than we were destroying them. What happened to all of that? That was just the flavor of that month.

Go back a couple of years before that and it was the era of the emerging Japanese superpower. Go back just before that and it was the vast enthusiasm for the European single market and how that was going to change everything.

I've been in this business for about 20 years, and the number of times I've heard that all the rules have changed, this way or that way, has been amazing.

I've learned not to be surprised when some fad develops and gets picked up by everybody. And so I won't be surprised, maybe two years from now, when there's talk of a new, new economy.

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