of the Washington

political scene so closely.

Over the past three decades

Professor Gergen

has served as White House Adviser to
presidents Nixon, Ford, Reagan, and Clinton.

He's the author of the best selling book,

"Eyewitness to Power."

And is professor of public service,

and director for the

Center for Public Leadership

at the Kennedy School of Government,

at Harvard University.

Professor Gergen serves as editor-at-large

for U.S. News & World Report.

And often appears as a

television analyst and commentator.

In fact, Professor Gergen will leave us

a little bit early this evening

in order to appear tonight on CNN,

as they analyze President Obama's

White House new's conference.

Tonight, Mr. Gergen begins a full evening

by introducing Paul Krugman,

and then opening up

our conversation.

After their opening discussion

we'll bid adieu to Professor Gergun,

and we'll open up the floor to you,

our audience.

And we'll again ask that

people step forward

to the center microphone

to ask their questions.

Thank you for your patience everyone.

And now here is David Gergen to
introduce Paul Krugman,

and begin our evening.

Thank you.

Thank you and good evening.

Thank you very much
for joining us here tonight
for a very special evening.
Last week I had the occasion
to be with Jim Lehrer
and George Stephanopoulos
in another setting.
And we had a
private conversation
about how difficult it was,
or is today,
to find someone that
you can turn to
who can explain, elucidate,
enlighten, and point the way forward
in these very troublesome times.
I can't remember an economic crisis
when there hasn't been some oracle,
usually in government.
A Paul Volcker type,
or an Alan Greenspan early in his term
as Federal Reserve Chairman.
But as Jim and George and I spoke
one name we could agree upon
that we all looked to
and paid attention to
is our featured speaker tonight.
Paul Krugman was
born on Long Island.
Grew up there.
Went to Yale as an undergraduate,
in the mid-70s.
Came out here to MIT
to earn his PhD.
Then began a sojourn as
a prolific economist,
writing many many
books and articles.
Taught at Yale,
at MIT,

at Berkeley,
at Stanford,
London School of Economics,
everywhere but you-know-where.
1999-2000 his life took a turn
as he went to Princeton
to become a professor of economics
and international affairs.
And also began writing a bi-weekly column
for the New York Times,
which is now a must read,
I think,
in these troubled economic times.
And of course, all of you know,
that in 2008
he was awarded the
Nobel Prize in Economics.
It is hard to think of
any other American
who has been a Nobel Prize winner
who is also a leading candidate
for a Pulitzer.
Perhaps Al Gore,
in the last month.
But there is nobody else
who comes close.
And, I commend to you,
the two books that are now out
in the Harvard bookstore,
that you will find
and also find here tonight,
a newly revised and large
expanded edition of
"The Return of Depression Economics,"
a book that he wrote
just a few years ago
but now has a . . .
It started out with a consideration,
essentially, of Latin America and Japan.

America is now heavily analyzed in
"The Return of Depression Economics."
And then the paperback version,
which has just come out,
"Conscience of a Liberal."
So Paul we welcome you back
to the Cambridge community.
We wish we had persuaded you
to stay here permanently.
But under the circumstances
your visit is very welcome.
And let me start by
asking you this question;
"The Return of Depression Economics,"
over the weekend the head of the
International Monetary Fund, the IMF,
said that North America and Europe
and parts of Asia
were already in a depression.
The head of General Electric
has said we are in a depression.
Harry Summers has said,
"No we're not in a depression."
Where are we
and where are we heading?
Yeah.
There is no definition
of a depression,
aside from the old one.
You know, when your neighbor
looses his job it's a recession,
when you loose yours
it's a depression.
So far, unemployment is rising fast,
but it's still not even the worst
since World War II, yet.
It will almost certainly get close to it,
but we don't yet have mass unemployment
depression-style.
But we have the qualitative features in

terms of how the economy is working

of what I call, "Depression Economics."

Think about . . .

During the early 1930's

the banking system collapsed.

We said, "Nothing like that

could ever happen again."

But, in fact, we've seen

a financial collapse

which is sort of the

21st century version

of the great bank runs

of the early 1930's.

We said, "Well the Federal Reserve

can always take care of us;

'Uncle' Allen or 'Uncle' Ben

can always pull us out."

But, the Fed has cut

interest rates to zero.

And the economy

is still in free fall.

So, no.

It's not a depression.

We don't have 25% unemployment.

But, it is a return of depression-like

economic conditions.

And that's scary,

because we don't know

where the bottom is.

Maybe it will be an

actual depression

by the time this

thing is over.

But what we know for sure is that

events of a form that we haven't seen

since the 1930's are back again.

One definition of a depression

has been a severe contraction

that lasts for about five years or more.

Is it possible that this

could go on for five years?

Yes.

It's very easy to see.

Not that the economy would

keep shrinking for five years.

It didn't do that even

in the Great Depression.

But that the economy could

stay depressed for five years, yes.

The example that inspired

"The Return of Depression Economics,"

in the first,

the 1999 edition,

above all was that of Japan

with its lost decade.

And so far we are following

the Japanese track

with alarming accuracy.

All of the forecasts,

Congressional Budget Office,

all of them show that five years from now

we are actually back to normal.

But unfortunately

I know why.

Because they all assumed

that it's back to normal.

So the rise in unemployment

from here to here

is a projection of current events.

And the decline from

up in top down to later

is just because they're

assuming that will happen.

They can't actually give you a

good reason why we're going to recover.

It was striking to me in your book

that in one of your graphs toward the end

that you showed that when we'd had

recent recessions, the last two recessions,

that when the recession actually ended,
unemployment continued to climb
for some months after that.
You think that's likely now?
Oh, almost certainly.
It's quite possible that, you know,
some of the indicators,
the GDP will grow a little bit
in the fourth quarter of this year.
It's quite, it's possible that the recession
dating committee will declare
that the recession that began
in December 2007 ended in October 2009,
but if the past two recessions
are any indication or everything
we're looking at, you know,
GDP must be going up a little bit,
industrial production might bounce
up the bottom, but unemployment
will just keep on rising.
So, yeah, the 2001 recession officially
ended in November 2001,
but the unemployment rate kept rising
right up to June 2003.
And I think there's absolutely no reason
to believe that unemployment this time around
won't keep rising
right through next year at least.
Interesting.
Let's talk about solutions.
There's gonna be a lot of time for questions
so you'll have an opportunity to delve
into these issues more deeply, but I want to
get across the surface of a number of issues
in this half hour together
and then leave you to go deeper.
But let me ask you about the solutions.
President Obama has been talking
as if there were three legged stool

he thought to the solutions.

That was -

one was to stimulate the economy.

Two was to get credit moving again.

Three has been to restore

or to stop the slide in housing

and to begin rebuilding

a housing industry.

Conceptually, that seems pretty close

to what you argue in your book.

I'd put the housing thing on one side.

I don't think there's very much you can do.

Home prices are still out of line
with incomes, okay.

It's not as if the housing market
is unnaturally depressed.

Housing prices are still 10 or 15% too
high nationwide by the usual measures.

So there's not very much
you can do on that level.

But the other two, yeah,

conceptually, it's right.

I mean, there isn't any big conceptual

dissonance between what I have to say

and what we're hearing, you know,

which is gratifying after eight years

in which there was no harmony whatsoever.

Quantitative, it's about the numbers, right.

The Stimulus Bill is very much the right thing

and it's certainly much better to have

whatever comes out of the

conference than nothing, but I do the numbers

that looks like it's, you know,

not about third as big as it really should be.

You've helped from the beginning.

You've been quite critical

with the size of the package.

Tell us, help us understand theory
behind how big a package should be.

Talk about how big is the hole

and how much do you put in the hole.

Okay. Basically, we an economy could be -
is now radically underemployed.

People are not working.

Though we have capacity, it's not being used
cuz there isn't enough spending to make use.

There is just isn't enough demand out there.

Ordinarily, we'd say, well, let's just -

let's cut interest rates

and that will get demand going,

but interest rates -

that the interests that are under

Ben Bernanke's control are zero

so it's nothing you do.

So what you're trying to do then is get the

economy going by having the government

one way or another provide the demand that the

private sector for the time being will do -

won't provide, and the trying thing for the logic

has very hard to see why the government

should not try to fill the entire hole.

- Yes, you're building up debt --

- . . . dollars a year for three years or so?

Well, yeah, the hole being a trillion dollars

this year, trillion dollars next year,

maybe a bit less in 2011,

but it's, yeah, so the CBO.

You know, I'm using the

Congressional Budget Office,

not because they necessarily have wisdom

but because they are very -

they risk conventional and

as solid as anybody have been.

So the CBO estimate is at 2.9 trillion

dollar gap over the next three years.

And you want to fill at least a large part
of that gap because if you don't,

then the slump can become entrenched.

Businesses scale back investments

sort of on a permanent basis

because they'd never think the
capacity's gonna be needed.

Prices and wages start falling because it's
such a weak market and then that means that

the burden of debt rises because the debt's

fixed in dollars and the incomes are falling in

and no one wants to borrow because

they figured that future prices,

future incomes will be falling, not rising,

so you can get trapped.

This is how you get a Japanese style

lost decade and, in fact,

the Japanese lost decade ended,

thanks to what sort of -

thanks to an export boom because the rest of

the world was growing, you know,

that's not gonna happened this time

because it's happening to all of us.

So you want to fill at least enough of the gap

that you reduce to a very low chance,

the risk of being caught in a very,

very prolonged trap.

I'm sorry, one more thing to say,

you know, the last time we experienced

anything like this was the 1930s

and there was no natural recovery

process visible in 1930s.

There was the New Deal which was mitigating
but really didn't cure it and then, finally,

it was ended by a, you know, a very large
public works program known as World War II.

But we have no reason to think that if we -

that any natural end will come to this unless

we do at least a lot to diminish the thing

from -- prevent it from digging itself in.

Let me ask you that question because the -

you talk in your Conscience of a Liberal book

about the need and perhaps now
the public desire for new New Deal.

Many critics, I'm surprised to see how this
argument is catching hold or arguing.

New Deal economics actually didn't work and
it did take World War II to get us out of it.

Therefore, we should not be doing

stimulus in the way we're doing it.

We're spending a whole lot of

money we shouldn't be spending.

Well, you know, what do you think - what do

people is echoing the president a little bit?

What do you think people think stimulus is?

World War II didn't cure the thing
out of some magic feature

that says that destruction is a good thing.

It cured the depression because it
was a massive fiscal stimulus.

It was fiscal stimulus on the scale that
you could never get the political will to do

except if it was to defend the nation,
and the deal helped.

I mean, it turns out that all of

the stuff about how it failed

is based on extremely selective

reading of the numbers.

If you actually ask did the economy get a lot

better under FDR even before World War II,

the answer is, yes, it did.

It didn't get as much better as it should have.

And where is the -- we have a pretty good clear

cut understanding of why government spending

can help support the economy

in these kinds of conditions.

Where is the alternative, the point of view

to support this opposition?

- Where is the --

- I saw it from ---

- Were the economic data data?

- Well, yeah.

Well, where is the argument if you listen
to the stimulus debate in Congress. -Right.

What you had was on one side people
doing this quick textbook economics.

And then, for whatever it's worth,

the Obama administration,

democrats and Congress sound a whole like
your ordinary Economics 101 textbook

on microeconomic policy.

The other side is full of pictures of how high

a trillion dollar bills would be

if you stock one of top of another, you know.

But the other side, the other side, the -

what we have seen is a pretty serious erosion

in public support for the bill itself there --

Right.

It's interesting that CNN

got a poll out tonight

showing the president's approval ratings,

personal approval rating as president.

It's about 20 % higher than
the approval rating for the bill.

- Yeah.
- And the stimulus package.

There has been an erosion and I think

there's been a lack of a stout defense

on the part of the White House.

Yeah. I think two things are going on there.

One is that the -- Obama was busy trying to woo

republicans in pursuit of a bipartisan support,

which he didn't get.

And also -- and not out there

forthrightly making the case.

Where were the presidential speeches about

why stimulus is a good idea and why we need it?

And the other thing is that I believe that

there's a lot of confusion in people's minds

between the stimulus, the fiscal stimulus,
to support employment and the bank bailout.

A lot of people put the -
mush the two of them together

and there are some really strong questions

about the way that we've been bailing out banks

and so when you ask people, are you

in favor of spending money on stimulus,

they might think that we're talking about

giving a lot of money to city group

in return for nothing in particular.

Right, that's interesting.

But there has been a concerted efforts and it's

been fairly successful to selectively pull out

things from the stimulus package and to

say why are we spending money on this,

what does it got to do with stimulus.

There is a theory, and I must say
I think some of it is not ill founded,
that some of these money is gonna
go for building bridges to nowhere
and that we're gonna be once more back into
the loop of providing a lot of money
that's not going to be -
that will go out the door fast
but it may not be wisely spent.
Yeah. First thing again,
I think the confusion with the bank bailout
is a real problem because, you know,
even if you build a bridge to nowhere,
you do actually employ some people doing it,
which is something that have missed.
And then, sure, it's easy to pick stuff out
although I thought looking at the examples
that made such a big deal of in the debate,
the examples were actually pretty poor,
so ridiculing, spending 200 million dollars
to replant the National Mall.
You know, that's America's front mall.
That's a great national monument.
Millions of people visit it.
You have great power.
You're supposed to take
care of its public spaces.
The idea that that was somehow
a crazy wasteful expense -
and add all of the stuff together,
it was still trivial.
Everything, every single thing that
was mentioned was, you know,
about a percent of the total.
I do. I think to some degree it was showcased
as being a lot about, you know,
the bridge falls apart in Minneapolis,
we're going to rebuild all the bridges
that desperately need reconstruction.

And when suddenly it shows up as,

you know, side on the mall,

that's a very different proposition to people.

But, you know, I think if -

but, of course, it isn't.

In fact, it falls in the same category.

And I think that any real spending

would be subject to this.

What we needed was big risk defense

of why this is all happening.

I just want to say John Maynard Keynes
actually foresaw all of these.

You read the great The General Theory
of Employment, Interest, and Money, 1936,

which is still of a text

to understand all these,

but he talked about how any

practical spending project,

people get bugged down the detail,

start talking about why it isn't a good idea,

and in exasperation, he suggested

that the government of his time

bury bottles full of cash in disused

coal mines then cover them over

and then let the private sector dig them up.

And then there wouldn't be

all these discussion so -

But you made a strong argument this morning in

the paper that money for stable local government

which was cut in the
Senate bill need to be restored.

This was an egregious cut

Can you explain why.

There is a sense on one side that money spent

by state and local government with no string -

we just give the money out

but no strings attached.

That it's just going to go for stocks,

much of which is not all that important

and may not go anywhere and, in fact, they

may not even hire the people that you want.

And then the other side said, no, no,

and you believe, no.

Put it in all black ground and

effect and get it out the door.

Well, if this was a booming economy

with booming state revenues

that would be very different

because then you say, well, yeah,

maybe they will do dumb stuff with it.

Certainly, state governments

have been known to do that.

But what's actually happening,

look at what's happening.

I'm not following the news in Massachusetts,

but I am in New Jersey.

You know, the state is in desperate straits.

It's cutting to the bone and

into the bone in many cases.

Construction projects,

everything is being cancelled.

The essential services are being suspended.

If you get at this -- and that's because

state governments unlike the federal government

can't run deficits through a recession.

So this is a point when helping

the states out with some money,

you can be quite sure that
the money will be spent

and that the great bulk of it will be

spent on things that are important

because they have things that are being

cut right now in the face of recession.

And the great virtue, the one,

the great concerns about public spending

is it takes awhile to get going.

And it is true that to start some

new government spending

it takes awhile to get going,

but stopping a reduction in government spending

is a very fast acting remedy.

Yeah. I think one of the surprises

the administration has found is,

is it's a lot harder to spend

money on infrastructure

quickly than they had anticipated,

so that the actual -

the infrastructure portion of the bill

is smaller than they first anticipate.

Yeah. At least that's what they tell me.

That there really is a -

and to some it is true.

Now, I think to some extent they're suffering

from the -- from too short a time horizon.

These people are using the targeted timely

and temporary thing which is from -

we're all -- which Larry Summers

among others used,

but that was before we realized how bad

this thing was gonna be and it's -

we're almost certainly looking at

three to four years of trouble.

So you think our time arise and

actually should not be two years.

It should be four years.

- Yeah, certainly three.

- Three years.

Certainly at least three, yeah.

And now, you know, you don't want,

oh, you know,

some multibillion dollar project

that takes 15 plus years -

Can anyone think of one here?

But I think there's more.
But it's true. It can't be all infrastructure.

I appreciate that, and I'm still

trying to figure out whether my -

what I want, which is the second

real tunnel under the Hudson River,

is actually bits - I'm sure it must
because I really want that, but anyway.

But, no, I mean, so it's can't be all

infrastructure that you have to,
but as I said, aid to
state and local governments
was one of the things that's really clear.
School construction, which another one of the
things that was cut in this new compromise,
again, that's not hard, you know, that's not -
that is not like trying to build
an entirely new west system of,
oh, tunnels and bridges,
something you can do quickly.
Yeah. There is another argument on that
and that is the reform camp and education.
They said there are no strings attached.
They're spending is going to the same
old places for the same old reasons.
If you - if the Department of Education is
gonna be have all these additional money,
why can't it attach strings to you better
improve the quality of your schools,
you gotta be doing some things
to pull yourself together here,
and then we'll give you the money.
Yeah, but again, to some extent,
we want this money spent.
This - everything here is trying to
serve a little bit of dual purpose.
They're trying to do something good for
society, some good for the infrastructure or,
you know, maintain essential services,
but you're also trying to get money
into the economy fairly early.
I don't think it has to be instant but -
and so strings attached if its -
delays that in two years,
that's a really bad idea.
Right. If you were a -
could wave a magic wand,
what stimulus package
would you see passed?

Well, I would - first it has to be -

well, it should be.

It should be at least 50 % bigger,
probably more, so 1.3, 1.4 trillion dollars.

Substantially, more aid to
state and local governments,

more aid to health care.

I think if we're gonna have

universal health care,

make a first installment on that

a big part of the package,

and I think there are ways

to bump up the size of it

in ways that are on the spending side
that actually add more to demand.

I think you could get more infrastructure
by adopting a longer time horizon,

but basically, this thing
just needs to be big enough

to fill the majority of this hole

that we're facing in the economy.

If you could wave that magic wand,

would you include that a tax package

where the tax promises of President Obama

made during the campaign

of 500 and a thousand dollars

for individuals and couples.

I don't think that's good policy.

I don't think it's terrible policy.

It's just not a especially good policy.

Given all the competing ___,

I never thought in - originally,

that was a good idea although it

what was a terrific campaign.

I have to admit that it played even better

in the campaign than I thought it would so -

but - and it's not all that much

when you actually look at it.

I'm okay with it.

I'm not - it's not something I would have

included if I'm starting

from outstanding start, but it's okay.

I understand. Could you help us -
we're waiting tomorrow to hear
about how the revised
bank relief plan will work
and there has been a lot of evolution
and thinking over time which seem to get going
around a little bit in circles about
what to do about these bad assets.
The latest version is that there'd be some sort
of combination of private-public responsibility
for these assets.
How does - as we think about what we're about
to hear tomorrow, what, conceptually,
should we be thinking about?
How is this going to actually work to get
credit moving through the system again?
Yeah, I'm not sure it will, is the problem.
I mean, the way I look at it is
that a good sizable chunk of our
financial system is really insolvent.
Can people - but we don't -
we're quite willing to admit that yet.
So you look at the four
biggest money center banks
and they have a combined, you know,
they have combined assets,
must be about six or seven trillion dollars.
They have a market valuation combined
to something like a hundred and fifty,
hundred seventy billion dollars.
I'm not - don't quite have this
quite on end but in that vicinity,
and essentially, all of that market valuation
reflects the hope that they're gonna get
a government bailout.
That they're the - they probably -
at market values their assets are worthless
and they're liabilities, and that makes
it very hard for them to do business

because who wants to -

and the money, who wants to, right.

And so what could you do and if you were

gonna say this straightforward logic,

you'd say, well, okay, if we need to keep

these institutions operating, which we do,

then the government should do

what it does three times a week,

which is when a bank fails.

If the bank doesn't close, it takes -

the government seizes the bank,

stockholders are cleaned out.

It takes some of the bad assets

of the bank's books.

It pays off a bunch of the bank's debt

and then re-privatizes it,

a temporary nationalization,

and the same logic,

the same thing the FDIC does every Friday,

two, three, four banks,

is what we ought to be doing to a
substantial part of the financial system,

but you don't want to do that.

Yeah. You think tomorrow's
announcement is a waste station?

Yeah.

And that they're just reluctant to

move all the way to nationalization,

but ultimately,

that's what's going to happen.

Yeah, that what I think.

It's - I think it's gonna be -

it's a little bit better

than rearranging the dead tanks

on the Titanic, right.

It's more like rearranging the deck chairs and

then - and also bailing out a bunch of water

from the hole, but there's

still that hole down there.

Well, you're really optimist here tonight.

So tell me - and I wanted them in a moment.

When this is all said and done,

this sounds like trillions more.

Yeah.

In federal obligation of the next two or three

years beyond what we've talked about. Is that?

That's right. I think -

and that's not be a big problem.

One of the biggest problem we have

is that people are still not -

having wrapped their minds around just, you

know, how big a thing this is gonna be to fix

and how much money is gonna be involved.

Look, we had -

we are in savings and loan crisis

and that ended up costing a 130 billion

dollars of taxpayer money

and that was almost 20 years ago

when 130 billion dollars was real money.

A comparable thing now would

be more like 700 billion dollars

not laid out but lost to the taxpayers.

When Japan bailed out its

banks in the late 90s,

it spent 500 billion dollars

to do that and that was -

with the dollar GDP about a

quarter of what we have now,

so that's like a two trillion dollar.

So all of this is gonna be big.

It's gonna be a lot of money.

It sounds like what you believe in is

something very akin to the Powell doctrine.

What's that -

The Colin Powell doctrine about going to work.

If you're going to go,

go in massively and get it done.

- Yeah. I was -
- And then get out.

Yeah, or as somebody say, no,
if you're building a bridge across the chasm,

we don't go just half way.

Yeah, and that's right.

You hit it hard.

Now, you know,

the funny thing is this is official doctrine.

The Fed has been worried about the

Japanese style thing for quite a while

and their view was that, basically,

Powell doctrine, you hit.

If you see anything like the Japanese style,

I mean, you hit it with overwhelming force

and you stop it.

And they thought they were doing that

but it turned out that what they thought

was overwhelming force was

nowhere close to being enough.

Right. So, Paul, where does that leave us?

Well, financially, two, three years from now,

three years, four years, when this is over.

Where - could you -

you're also a big advocate of health reform

and a major portion of this

Conscience of a Liberal book

is the need to move forward on

comprehensive health reform as a priority

along with fixing the economy,

but where do we find ourselves as a nation

after three or four years of this?

Well, we're a big rich country

and provided that we have that's credible

that we're gonna do what it takes in the
long run to get our fiscal house in order.

You know, we're not very heavily taxed.

We're actually the lowest tax rates of the -

of any major country.

We're - our entitlements primary

by-talks about is only so severe

because health care is so

expensive in this country.

If we got real health care reform, that would actually greatly diminish that problem.

And we have quite a lot of -

we should have quite a lot of room

even now to run up some more

debt as part of fixing this thing.

I would like to say that we should be able to

run up to a level of debt relative to GDP

comparable to that of Belgium.

I'm not sure that's a persuasive example.

Well, or the United States.

And at the end of World War II,

we had debt that was a 110% of GDP.

Right now, it's about 45.

So, now I - all I actually think is
give me 30, 40 % of GDP.

Additional debt would be kind of an upper limit
to what I would be willing to think of,

but that's point to say that's five,

six trillion dollars.

That's five or six trillion dollars and

we're now talking a couple of trillion dollars

or three, maybe three bad debt.

Well, not all of this deficit.

- Under the current.

- Right. It's -

so it's not a horizon that's so far out
that it doesn't matter at all,

but we do have quite a lot of running room.

So that from your perspective you could go to
that 40 % or five or six trillion dollars

as we did after World War II and then cut
and then build your way out of it

- or come out of it on time?
- That's right,

but it does require that your belief
that we are actually able to be mature

and do things politically in the long run

to bring the numbers under control.

So fundamentally, you're arguing that the -

conceptually, they've got the right idea.

It's just way too little.

That's right.

My - and it will leave us and

could leave us in a much deeper hole
a lot longer than it should and that in fact
we can afford to do about lot bigger projects
on both credit and the statements.
And the risks of not doing it are greater
than the risks of earning up the debt
required to do it.
I understand. I think on that note,
I should leave you in the good hands
of these people.
Good luck.
I appreciate it. Thank you very much.
We focus quite properly on domestic fiscal and
financial recovery as your first priorities.
Let's look ahead two to three years and
think a little bit about international policy,
both in the realm of macroeconomic coordination
and also in terms of the value of the dollar.
If we take the policies that you're
recommending here with U.S. domestically,
what assumptions should we
make on coordinated re-afflation
on the behavior in microeconomic
terms of other countries?
And two, under the scenarios
that you're projecting, what do you see
as the value of the dollar and the role
of the dollar over the medium to long term?
Okay. So I am - there are
real international spillovers from stuff.
Some of many expansion we do is
gonna show up as higher imports,
higher exports of other countries.
It's - what people sometimes say
is all the stimulus stuff will all go to China
is not right but some of it will.
And I think in the U.S. that's
not too big an issue because
even now we don't spend that
much of our income on in imports,

but it will certainly be better if we got
more coordination, if everybody was doing it.
The trouble is the other big player
that ought to be really doing its share,
pulling us out,
is Europe,
and the Europeans have a huge
internal coordination problem.
Basically, each European country
that goes it alone is just -
is providing a lot of help to its neighbors
but not too much to itself
and they really need a coordinated policy.
There was not mention to get because the
Germans are being very German and so the -
and by the way, you know, this is not,
obviously, this is not just a U.S. problem.
In some ways the worst hit places are the
countries around the European periphery,
both sides, Ireland, Iceland,
let me see, Spain,
but also Ukraine, Russia, the Baltics.
And the Europeans are not getting their
act together even worst than, you know -
I'm disappointed in what's happening here.
I'm dismayed of what's happening there.
So this is, you know, this is a
global mess and try - the U.S. -
if the U.S. is doing the right things, that
might act as a leadership for everyone else
but it's a mess.
Value of the dollar, yeah,
I'm not sure how much bearing -
I think the dollar is actually inflated
right now because it's the safe haven currency
in this kind of weird way.
It's not actually that U.S. debt is safe but it
is just that if the U.S. defaults on its debt,
nothing else anywhere is worth much, right.
There's a line - Nouriel Roubini, Doctor Doom,

but actually a quite good economist in a way.

He says - he was using a

back credit default swap

so it applies to a lot of these things,

he said that - certainly, I should -

this is certain people -

people are actually paying for insurance

against the possible default against

the United States government.

And as Nouriel says, that's buying

insurance on the Titanic

from someone who is a passenger

on the Titanic just on -

I expect that the dollar will be weaker,

you know, some a few years up.

International role of the dollar,

actually, we've just seen -

I think it's probably got -

its life has been extended

because we'd just seen that the euro,

which is the plausible alternative,

really suffers from not

having a European government.

So we - since we do have a government here,
sort of, kind of, we've got a ways to go.

It says are less weak . . .

That's right. In the country of the blind
and all that stuff, yeah.

Thank you very much.

Hi. I have so many different questions,

but I will - I'll just ask one.

Let me just first say I'm totally on board

with stimulus and universal health care

and all that kind of stuff,

but I also have a child and I'm really

wondering if you can say anything

to make me feel better about spending all these

money and putting this burden on the future,

and how are we gonna -

how's that gonna be okay.

Yeah. Okay, so we're gonna have a lot
more debt coming out of this, but we'll also -
I mean it's, you know, compared to what?
Basically, we don't do this.
Then we run the risk of having a permanently
depressed economy and, you know,
if we're thinking about actually - forget about
distinction between public and private now
and ask what can we do to ensure that we are,
in fact, investing in the future?
Not having the government borrow money
does not translate into more money
being available for other stuff.
It's just that translates into
a more depressed economy.
It actually translates into less private
investment as well as less public investment.
We'll have more actual business spending
on the future if the U.S. government
gets this economy moving than if
it doesn't as well as having more,
hopefully, having more bridges
don't fall down and that sort of thing.
So it's actually, it's not a case of
what we need to make a trade off
between the future and the present
and that we're willing to sacrifice the future
to support the economy now.
Actually, supporting the economy now
is good for both the present and the future.
It's a shame that we're in this situation,
but we have to do a lot of government borrowing
to achieve that, but that's -
there's a time when trying to be -
actually, let me say, there's something we talk
about now in macroeconomics which is very real,
we call the paradox of thrift,
which is that when the economy is depressed,
not always, but when the economy is depressed,
if everybody tries to save more,

they actually depress the economy and every -
actually everybody ends up saving less

because they lose so much income.

And there's a - there is something
like the paradox of thrift here.

If we scrimp on fiscal
support for the economy now,

we actually end up in impoverishing
future generation as well as the current one.

Mr. Krugman, what if China

stops lending us money?

And if they do stop, can we simply print

more money to get us out of this crisis?

Okay. The first thing to say is that the -

if you ask, where is the money coming from?

Actually, right now, we already have,
you know, TARP for the banks

and we have the Federal Reserve

lending lots and lots of money.

And you ask, where is that money coming from?

The answer, actually,

is it's not coming from China.

Although we have been borrowing money

from China and continue to do so,

the big increase in government

or quasi-government exposure

is actually coming -

we're financing that ourselves.

What's happening is that private
individual's, corporations,

everybody is scared and
they're afraid to lend money out.

They're afraid to put money into investments

so they're sucking it away

in U.S. government debt,

which is being, you know,

which is now financing all these

things that we're trying to do.

So it's actually not -

we're not increasing our dependence on China.

It's - we're - we have the same,

roughly, actually, slightly diminished level

of dependence on China as we have for the past, you know, since around the early years

of this decade.

The - now, what would happen

when the Chinese decided to stop -

well, first question is what would

they do with the money instead?

If they decide to go and spend it domestically,
actually, that would be a good thing

because if they - that would boost
their economy and boost demand

and help the world economy

so that we're actually -

on the whole,

be good thing.

They decide to put into euros,

the dollar would fall a lot against the euro

which would actually be a

good thing for the United States

because it would make our

exports more competitive,

problems for the Europeans

but not such a terrible thing.

And will the Chinese try to -

will they try and use the leverage?

Will they threaten our financial system?

The thing about it is still blinded.

I guess we need to up the numbers.

It used to be if you owe the bank

a thousand dollars, you got a problem.

If you owe the bank a million dollars,

the bank has a problem.

I think we need to multiply those numbers

by at least a thousand these days.

But anyway, the Chinese are as locked.

They have, in fact,

given hostages

by accumulating that

trillion and a half dollars of reserves.

So I don't think anybody would
need to worry about that.

Thank you.

Professor Krugman,

where do you stand on protectionism?

There was a column in the Financial Times

this morning that sort of knocked you

for saying that protectionism

in the short run has its virtues,

not a good idea in the long run.

I actually haven't seen that column

but I was told about it,

and I thought Clive Crook

has gone off the rails.

I wrote a brief blog entry pointing out

as a matter of economic logic

that you could make a case

for short run protectionism,

and I certainly wasn't advocating it.

But, actually, let me tell you why.

There is a - it actually comes

back to the first question

that was asked about

coordination and fiscal policy.

If we're all gonna be inhibited from doing

what we need to rescue the economy

by fear that the benefit is gonna

spill over to other countries,

and if we're not able to cooperate,

then actually in a unfortunate,

what an economist might call second best way,
some kind of temporary protectionism

which ensures that the benefits of
fiscal stimulus stay at home

might actually lead to things being better.

That was the argument I made.

I wasn't advocating.

I was just pointing it out.

Now, why don't you want to do that?
It's not because as -

lots of people tell you that protectionism
cause or greatly deepen the Great Depression.

That's actually not true.

It just doesn't stand up at all if you look at

the actual economics of what happened.

What is true is that we have a relatively open
world market system, which despite -
it's not purely a good thing,
but on the whole I think it is a very good thing
especially for poor countries.
That system took three
generations to put together,
many, many decades of slugging,
painstaking trade negotiations.
If you blow it up for the sake of
even genuine short term benefits,
probably take another three generations
to put it back together again.
So that's the argument against it.
So I'm not calling for protectionism.
I'm gonna have to have a word with Clive Crook
about what the hell is going on in his mind,
but it's, you know, it's not -
the objections to it are more long term
political economy than short term economics.
I thank you for coming here,
appreciate it.
My question actually sort of pertains to what
you're talking about the paradox of drift.
I was thinking about, well, 500 dollars coming
back to me eventually if this passes
and a tax break,
that's 60 bucks a month.
That, to me, that feels like a lot of money,
but my instinct would be, well,
when I get that much money,
I'm gonna put that away.
Is that unpatriotic?
I mean I try to live my life that, well,
if I did something and everybody did the
same thing I did, what would be the effect?
Yeah. I think that we can't.
There are -
it's one thing to call upon people to

make sacrifices in the name of the cause.

To call upon people in the name of patriotism

to lit it up just somehow feels wrong, right?

And, actually, I felt very uneasy,

you know, after 9/11

whether there was this actual campaign with

President Bush and former President Clinton

actually out there urging people

to keep on spending which -

it was a little bit better than

this but it was still felt -

that still felt wrong, you know.

We should have been having

calls for blood toils, tears, and sweat,

not - actually there was - I remember that in

the airports right then they, for some reason,

were showing over and over again an add
ran by the association of travel agents,

of all people, showing then President Bush
urging people to go and do your business

around the country, which apparently doesn't
quite have the same connotation elsewhere

that does in New York area.

But anyway, just had a -

but it - no, this is not.

The - it's the - this is the job of policy,

not to appeal to individuals to go out there

and endanger your personal finance future

by going out and buying stuff.

This is not -

and let me say by the way,

the consumer pull back, it was panicked.

If consumers were irrationally, you know,

refusing to spend, then it was fear

which I guess we could have

argued was true after 9/11.

That would be one thing.

But what's actually happening now is

that the saving's rate

which had fallen to zero is now back

about half way to what it was

in normal times in the past.

So consumers are still, by historical standard,

saving too little.

I don't think you can feel that it's your duty to not start saving so, no.

This is a job for Congress and the president,
not a job for, you know,

for ordinary families to solve.

You warned against building bridges
half way across the chasm,

yet in health care you've moved

from advocating a single pair reform

which could clearly solve the problem

to one which really is -

amounts to moving only halfway across the chasm

to repeating the disaster's experiments

in six states that have failed

and one that is now failing is Massachusetts

and was doing so even before
the current economic crisis

as a doctor in a public hospital
who cares for poor people.

I can tell you that this reform has both

seen an increase in medical bankruptcy,

a decrease in care for many of

the chronically ill where --

who were previously uninsured and cost

rising far beyond what were anticipated

despite the measures that you've said

would be cost saving on the national level.

So I wonder how you can pull back from
bold measures on the health care front

while you advocate them

on the economic one.

There is a difference just

to say on the macrofront

that the real problem is again the

self-reinforcing nature of the crisis,

and if we don't hit it hard and effectively,

it gets much, much harder to deal with.

On health care,

there is a real -

I mean, if I thought it could

pass in the next decade,

I would be a single pair advocate,

pure and simple.

And I would not be advocating

a mixed system for health care

which I am now without crucially the inclusion

of a public plan that people can buy into.

Because the only way it makes sense

is as a bridge to something which will,

in the end, be a largely public system.

So I have, you know, I hope I've

never tried to claim that something,

you know, a Massachusetts style plan

is actually better than Medicare for all.

Medicare for all is better.

Medicare for all also has no chance
of actually being enacted

for a number of years and I've really -

- You don't advocate for it?
- What?

Surely not as people like you
would advocate for it.

Well, but I see a chance.

I see a real chance that we

could get the bare bones

of a universal system within two years.

And I don't want to give up on that chance,

and, of course,
it would be a highly imperfect system.

It would be better funded
than any state can do.

It would be not subject to set back

in the face of recession

the way that state plans are,

but sure, it might be problematic.

Now there's, you know, I'm -

if this push doesn't happen or if it fails,

then I'll come back to it.

But the -

right now, I'm willing to go

with a highly imperfect plan

which could be fixed rather than -

maybe it's a wrong choice, but I think rather

than spend the next ten years advocating

for something and trying very slowly

to build public support for it,

to go for a very imperfect solution

but one that we can get in place and then -

my belief is that nationally,

if we get universal health care of any form

no matter how badly done,

it will immediately become irreversible

and then we can finally fix the system.

That's I believe.

Yeah, okay, that's all -

it's actually some -

I'm tempted to be professorial

and say good question.

Anyway, the - no, but I mean it's a really -

it is certainly striking that the run up to our

current crisis so much resembles the 1920s

and not just financial bubbles

and all of that,

but also high degrees of inequality.

I mean, the first Gilded Age really

ended with a terrible economic crisis

and then we came to a second Gilded Age

and, my god, here we are again.

The channels through which that

happens are not that easy to see.

The - what seems to be

happening right now is not so -

it's not the sort of broad issue

of economic disparity,

as much as I think that been
a terrible social problem.

As it is, the specific problems of
compensation in the financial system

that basically get huge bonuses

by recording profits

and you don't have to give them back when

those profits turn out to have been a mirage.

So I don't -

and maybe that goes together in some sort of
vaguer sense that in an age of high disparity
the idea of paying people enormous salaries
for shuffling for financial wizardry
became acceptable.
I actually just had this conversation with some
people from Harvard Business Review
earlier today.
They were asking, you know,
to what extent -
what can we say about the causes of this,
and it was actually HBR back
in the late 80s had these articles
about how we have to give incentives to
executives to make them do their jobs
and which in a way set the stage for this,
so I actually said, you know,
basically Harvard Business Review caused this.
But I don't -
no, it's -
would it be -
could we have a stable financial system
while still having huge income inequality?
And as far as any way I can actually
work it out on paper and pencil,
the answer seems to be yes.
I share your feeling that
there's some connection
between this financial economic instability
and the extreme inequality of our society,
but I can't actually pin that down.
So what can I say, they -
we don't understand everything.
Let me also say -
I'm sorry, one more thing.
You don't want -
well, we do want to think about these things.
You don't want to fall too much into the idea
that everything is organic
and everything is connected together.

We don't have to fix everything

about our society to cope with -

to at least greatly mitigate this crisis.

Would be much -

it would certainly be -

I would love to see a return -

you know, I have two books out here now

and one of them is about

depression fighting

and one of them is about

social justice and a good society.

And I'd love to achieve everything

I advocate in both those books,

but I don't think you have to achieve

all of the goals of a new New Deal

in order to at least avert
to second Great Depression.

You know, Mr. Krugman,
I have a list here that I'm gonna go through.

I'm gonna try to summarize each of the points.

Very quickly.

Yeah, fast as I can.

General rule is that all questions

should be something that you could

put a question mark at the end of it.

Okay. This is what the lists are.

Sorry about that, but the list are

a list of contrived financial issues,

issues contrived by the

financial dominant essentially.

A list of real economic issues

and then solutions

and I was hoping that you would

speak to your view of these issues.

All right, the first one is,

you say unemployment, it's low.

What?

Or it's not low but it's lower

than it's been in the past

that it's not at a rate that is

considered depression as yet.

Yeah.

Okay. I was wondering regarding this

that the unemployment is being hidden

that people that are on unemployment

long enough that their insurance terminates,

they're still unemployed,

they're not being counted anymore -

Okay, that's not right actually.

That's not how we count

unemployment in this country.

The unemployment rate is based on a survey.

It has nothing with unemployment insurance.

It's - there is a problem with

our unemployment numbers

that if you're not searching for a job,

you're not counted as unemployed.

We have a broader measure which includes

a lot of people who are one way or another

either searching for job, they've given up
searching because they can't find -

they have no prospects.

There are people who are underemployed

or working part time

when they'd like to be working full time.

That broader measure is almost 14 % now.

But, no, it's not true. That's -

it is not true.

The - if we only counted people receiving

unemployment insurance as unemployed,

the unemployment rate will look very low

because our unemployment insurance system

is incredibly full of holes.
What?

- You say that there is a survey
being conducted? - Yes.

- Who's conducting the survey?
- Bureau of Labor Statistics. It's not -

- Sure.
- This is not a problem.

I'm sorry.
This is a -

there are many things that are wrong here, but not that one.

No, that's not politicized.

I know people would like to think,

you know, not - that's not a problem.

There are many things that are corrupted

in our society, but that's not one of them.

Okay, derivatives, that these derivatives market, I've read recently is between 600 and 700 trillion dollars.

The whole worth of the GDP

globally is 50 trillion dollars

so the banks they have back door deals
each other based on the

Gramm-Leach-Bliley Act.

- Okay. - Are you gonna let
me go through the whole list?

No, I'm not because -

no, I'm sorry.

I'll go ahead and -

Excuse me. Excuse me.

I think we've had the one question.

Excuse me, one question,

one question.

There's a line behind you and time is limited.

So then I'll give you the list.

No list.

No, no, list.

Okay, please.

I'm sorry.

I'm gonna have to ask you . . .

All right.

I'm sorry.

Have we got a -

Let's take the next question please.

Thank you.

Professor, what aspects of prevailing theory

in either economics or finance

do you feel is most responsible for getting us

into the current crisis whether it's, you know,

bunch of such as a great moderation

on the economics side

or efficient markets and finance,

et cetera?

Okay. I think there were

couple of things that the -

that went on among economists

and finance theories

that did help make this possible.

I think the efficient markets

which is the view that markets always -

basically, that's markets -

financial markets always get it right,

was damaging.

Those people just refused to believe

that we could have the kinds of risks.

Actually, friends of mine who

were finance professors are -

have come back spitting from recent conferences
because their people were still insisting

that the markets are efficient and,
obviously, not a good thing.

On macroeconomics, the belief
that we have had this thing licked,

and I think that's made it bigger lately,
the extremely strong belief

that we have this thing licked that the kinds
of problems that took place in the 30s

could never happen again contributed

to a sort of complacency

that let us get right up to the edge of this

without doing anything preventive.

I was astonished, actually, that so few people

took the problems of South East Asia

and of Japan in the 90s as a warning

because they were clear recurrence

of depression style economic problems,

depression economics,

as I called it in the book.

And they were a clear warning

that these things could happen

but most people did not want to believe it.

Now how much all that helped?

How much was all that

responsible for the crisis?

I'm not sure, because there were

some economists who fought,
who were spooked by the Japan example,
and fought long and hard
about how to prevent something like that
happening in the United States
and among them were a few people at
Princeton University, myself, Lars Svensson,
and former department chairman,
a guy by the name of Bernanke, Ben Bernanke.
And no one was more intellectually
prepared for this crisis than Ben was,
and yet he's still having
a very hard time coping.
So it's not clear to me that
that was how much our knowledge -
now, one thing that has shocked me
as we've gotten into this crisis
and as the debate via responses come up
is to discover how many economists
have managed to forget or never picked up
the lessons of the depression.
So there's been an extraordinary outburst
of eminent economists
who have been regurgitating 75 year old
fallacies as deep new insights.
It's amazing how many people it turns out
just don't know anything about the -
why potential income doesn't
automatically translate into spending,
all of these things that were hushed
out during the 1930s. So we've -
I think maybe just a long stretch between
depressions led to a great deal of forgetting
and those who refuse to learn from history
are condemned to repeat it
which seem to be what's happening now.
I am -
change the subject just slightly.
I like gums and butter issue

but I am very concerned about what I perceive
as the Obama administration tendency
to perhaps get more and more involved in
the Afghan war and what the effect of that.
If they in fact do escalate,
as has been indicated,
what's the effect on the stimulus program?
How can they do both?
Okay.
So let me answer that.
On the economic side,
we are a really big country
and even a misguided war is in turn,
in economic terms, marginal.
So the Iraq war is horrifying expense -
for what's it's worth, by the way,
clearly bigger expense
than the stimulus package.
So where are all those people who are crying
about the expense, you know, when -
so, Afghan -
in Afghanistan no way is it gonna be as
expensive as Iraq has turned out to be
so it's not that bigger deal in
terms of the economic policy.
I'm worried about it too,
and this is now, you know,
I have no special expertise here, but I do talk
to people who do have special expertise
and they are very, very worried
that this is actually too late.
Possibly, Afghanistan could have gone
differently had something been done
a long time ago, but it really does look,
you know,
it does look pretty much like a lost cause.
And I don't -
I'm not hopeful.
I'm not writing about it because at this point,
other people are doing that

and I can stick more to my area of comparative

advantage to be an economist on this.

But yeah, it doesn't look good.

It looks -

various people are emailing me,

Roger Kipling, about Afghanistan

and it's apparently -

it's been the graveyard of many an

imperial power and it doesn't -

history seems to be repeating itself.

Just heard, you know, the talk about a
ten year involvement so that's what concern me.

What's that?

- It's actually ten year involvement.
- Yeah.

- Bigger than Iraq.
-It's an unhappy story.

- But thank you.

-Thanks.

- I'd like to ask you to address tax policy.

- Yeah.

A lot of us think that those of us

that make more money than average

aren't paying our fair share and I think

that that tax policy ought to change.

But from an economic point of view

and from achievability point of view,

should we be doing anything

about out tax policy now?

Okay, yeah. It's not -

you don't -

there's no good case for raising taxes

in the middle of a severe recession.

This is not the time when you wanna do that,
but accept to the extent that legislatively

you want to get moving because we were -
are gonna need to do it.

We don't -
getting past the current slump,

if we ever do, but getting

past the current slump,

United States does not raise enough revenue.

We were not -

we did not have a balanced budget

even at the peak of the boom

and especially with the responsibilities,

even if those exaggerated but when the -

when more people retiring

and take social security and so on,

we were not raising enough

to pay for existing expenses

and if we're gonna add some other things

like expanded health care,

it's going to need more

so we need more revenue.

And yet tax rates at the top end

are vastly lower than they used to be

back when socialists like

Dwight Eisenhower were running America.

The top marginal tax rate was 91 %.

Now it doesn't have to be that high,
but it -

we certainly have a situation
where it has never - not since 1930 -

well, even Herbert Hoover
may have raised the tax,

but certainly not since FDR

was elected have tax -

the tax burden on very high income America

has been as low as it is right now

and at least part of the money we're gonna need

to do the things we have to do

- should come at the expense of the effluent.

- Thank you.

Next. You and the next

three people and then that the -

all the questions we have time for in

the formal question and answer session

though you could always ask a question

when you're having your book signed.

Thank you. Okay. In thinking about the fact

that there seems to be resistance

to what seems to be so eminently clear from your presentation about what should be done

by the Congress but what isn't being done,
I find myself thinking about a larger question

which is that what seems to be happening

might be understood as,

on the part of the Obama administration,

the reconstitution of the capitalist system,

and by that I don't mean the ethical capitalism

that I believe you most probably described

in the second larger agenda

that's in your book,

The Conscience of a Liberal,

but the - to put it in a more simplistic -

- I'm sorry. Is there a question?

- Yeah.

The question is,

in a more simplistic way

it seems that the very people

with the very kind of thinking,

and you've alluded to this, who had been put in

charge of making the crucial policy suggestions

about the fix are the very people

who's policies got us in to the mess

that we seem to be in,

and I guess I'd like to ask you to address that

and also just say where else

in addition to your own work

and that of Nouriel Roubini

you find good cogent detail analysis

of where the best solutions are.

Okay.

I'm gonna parse this a little bit.

The Obama - the advisors or the people

who seem to be making economic policy

are slightly left of center democrats

and no more than that

which should come as no surprise

because that's what Obama is, you know.

People thought he was a radical,

he was gonna change things in a radical way.

They weren't actually

listening to his speeches.

And the question is,

are they able to solve the problem?

Is it the right people? And I guess

to some extent that remains to be seen.

There is a problem.

We talked about this.

Should some very, very different

people have been chosen?

And it's not that easy because
you do want someone.

Actually, this came to me today that,
for Treasury Secretary,

what you want is you want somebody

who knows where the bodies are buried,

but preferably not someone who put them there.

And then it's -

and it's not we -

have we managed to do that and I guess that,

we're sort of not entirely sure of that.

What I would have like to see -

I don't actually -

I'm disappointed that there are not

more people with heterodox views,

not necessarily at the core

but in a position to have -

to weigh in on the

administration's policy disputes.

I was very disappointed with the economic

advisory panel that was announced recently.

Paul Volcker, I love, if you also -

demonstrates the truth of

the doctrine of too big to fail.

If anybody actually ever seen him,

over here he was standing next to me,

you see what I mean about that.

But the rest was -

I mean it's not that any of

them were bad people

but it's just there was no one there

representing a really strongly progressive

economic point of view.

The most progressive economist in the

administration right now is Jerry Bernstein.

He's advising Joe Biden.

There should be more of those there.

And it's a problem.

It's - the move so far have had a -

have been cautious,

ultra cautious not in the right direction

but always at each stage so far everything has

been a smaller step in the right direction

than I was hoping to see.

And I don't know how much of that is

the president and how much of that is the pick

of the people he chose,
and maybe they'll get bolder.

I mean maybe they were really,
really trying to get bipartisanship

and have now learned the lesson,

but it's -
I am concerned, but you know,

in my own way about this stuff.

And I also have the problem.

I have to say this has never -

this didn't happen to me at all

during the previous eight years

of actually knowing most of these people

personally, which means I may have -

I may tend to go too easy

at least for a little while on things so,

but I will try to retain my

cost ___ as best I can.

Who else would you recommend

other than just yourself and Roubini?

Well, I would have like to see Joe Stiglitz.

I don't understand why Joe Stiglitz

wasn't on that panel.

Hi. I was just real quick wanted to ask

when you mentioned about with David Gergen

about vital services being cut and be given in

to the bone and the disabled veteran,
I felt that first hand already.
And while I don't understand a lot
of the loftier economic principles
of the stimulus package,
I was wondering if you could explain
how this thing knows the package.
It might affect those services and what
you'd recommend to maybe helpful?
Yeah, well, what I understand is that
it was supposed to be about 80 billion dollars
in direct aid to state governments
and that would go a long way
towards helping states avoid some of
the cut backs they're making and, of course,
states then transfer money to local governments
which in turn affects all the services.
So I was told -
I don't know what the Massachusetts thing was,
but I was told that, for example,
the Connecticut State had -
that the state government had
cancelled two billion dollars,
a really painful cuts it was planning because
it was counting on money coming from Washington
and now it appears it may have to go
through with those cuts anyway.
And that's -
I think that's having it all cross the board.
So all of the kinds of services to the
disabled, to the sick, to the poor are -
these are the things that states
end up slashing in a recession.
These are the things that given an extra,
you know -
I'm trying to do the math in my head
which I shouldn't, but it's -
there's a significant amount
of aid and that's -

that would have been flowing, you know,
under the House version of the bill

that would just avert this
and to actually make its -

the specifics would be up

to state governments.

But since states are cutting in to these

things that people desperately need.

Just read -

go to the local newspapers of any state

and look at the stories about service cuts

and they're not, you know,

they're not cutting out on

a champagne and truffles.

They're cutting out on very basic things

that people depend on

and I thought it's incredible

that the Senate's interest should think

that they were doing a heroic service

to the nation by making sure

that those cuts continue.

So on the backside of this economic downturn,

you know, we're coming out of it five years,

what you say.

What's the U.S. economy look like

in comparison to other countries

and what's the other side look like?

Yeah, that depends enormously

on what other things happen.

I mean I continue to hope

that we come out the other end of it

with the universal health care system

so that we become, you know,

that we join the ranks of civilized nations.

Every other country has one.

We possibly come out

with the stronger labor movement

which in turn does a fair bit
to make us a more equal society.

We come out with a smaller finance

sector and we went to a, right?

I mean, look, in recent years
30 % of corporate profits

have been earned and financed.

That just doesn't make sense

and it's, you know, we went

from having 4% of GDP
and finance to about eight

and it's almost certain
that extra 4%

of GDP we were devoting
to it was not actually doing

anything productive so we end up,
I'd actually quite worried about

one of the two principal cities

of New Jersey.

You know, two principle cities in New

Jersey are New York and Philadelphia.

So I'm a little worried about

what happens to New York City

because it has become such

a monoculture economy

based around finance and it's,

that's gonna be a rough adjustment,

but we will -- you know, in some ways

we'll get back, I think, to being

a little bit more like we were in

the first past four generation,

a more equal, less abrasive, less rat-race

society than we were, than we became.

Now that doesn't mean -

you know, I don't think

it's gonna be a fundamental shift.

I don't think we're gonna see -

we're not gonna become socialist.

We're still gonna have a private financial

sector but a more heavily regulated one.

It's all gonna be just somewhat calmed down

and if post war generation is any indication,

we might be doing just fine

in terms of economic growth

and productivity with all that.

You don't actually need to pay CEOs

a thousand times the average wage
to have productivity growth and -
but, you know,
it's gonna be hell getting there.
It's not gonna be easy to get
through to those calmer waters.
I will say, the -
well, and somebody said this,
this is not original,
but, you know,
the best thing we can hope for
is that five or ten years from now,
banking will be considered boring.
Okay.
And this is our last question.
Hi.
Will you explain the impact
of the underground economy
both nationally and internationally
during this economic transformation?
I'm not sure I know what to say about it.
You know,
in the United States,
obviously, we -
everybody has an underground economy.
It's not clear to me how big that is here.
It's bigger in countries that are poor.
It's bigger in countries that are -
where people are more -
where the -
it's easier to evade the tax system.
I don't know what more to say.
I mean there is this still always awestruck
by the sheer amount of currency actually,
you know, green pieces of paper
with pictures of dead presidents
there are in circulation
which is a several thousand dollars
for each man, woman, and child
in the United States.

And since we think that about 60%
of that is outside the country,

but even if you take that out,

there's still an awful lot going on there

and probably the main reason

is for transactions

that for one reason or another

can't appear above ground.

But I don't know if it's a

big deal in this country really.

I don't think it's -
I wouldn't say that the GDP accounts are,

you know, telling exactly the truth,

but it's - it bares -

it's a novelization of the reality

but not too bad of one.

I don't know what more to say about -

So do you think the international economic

underground economy

would affect this national economy?

Not so much.

I mean, actually, the trouble -

it was the shadow not the underground.

And what created,

what's turned this in to such an incredible,

international thing is not the people

operating below the radar

and doing transactions with the

suitcases full of hundred dollar bills.

What created this crisis was the people

doing fantastic financial deals

with wire transfers who turned out to have

exposed people across the world

to incredible financial risks.

So this wasn't -
it was invisible

because we didn't know where to look,
but it wasn't underground.

It's the -

if we had -

the 20 people who destroyed Iceland

were not operating in secret

but the point is that nobody was tracking

what they were doing

and that's where the problem was.

Okay.

Okay.

Thank you.