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Arguing with Zombies: Economics, Politics and the Fight for a Better Future
by Paul Krugman.

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Paul Krugman's latest collection of essays, *Arguing with Zombies*, first appeared in January 2020. Not only was it quickly buried by Covid, but he missed out on a thing all too rare for a pundit: the opportunity to declare victory. A year later, in Joe Biden's Washington, Krugmanism rules. The gigantic scale of the $1.9 trillion Biden rescue plan, and now the proposed $2 trillion infrastructure investment programme, are testament to a rearrangement of the relationship between economic expertise and politics in the Democratic Party, a rearrangement which Krugman anticipated and for which *Arguing with Zombies* makes a powerful case.

In the 1990s the lines were clearly drawn. The Democrats were a party of fiscal rectitude and trade globalisation. They had the weight of academic economic opinion behind them. Krugman was one of the cheerleaders and enforcers of that dispensation: the job of brilliant economists with a quick pen was to guard the true knowledge against deviations to the left and the right. It isn't by accident that Jed Bartlet – the fictional president in *The West Wing*, the TV fantasy that sustained liberal America during the dark Bush years – was a genial economics professor and Nobel laureate. It was a fantasy. The synthesis of brains, wisdom and power embodied in Bartlet didn't stand up to 21st-century realities. Today, Krugman tells us, 'everything is political.' He has come to accept that 'the technocratic dream – the idea of being a politically neutral analyst helping policymakers govern more effectively – is, for now at least, dead.'

Breaking with the technocratic assumptions of the Clinton era and the early Obama years has been an attritional process. In Krugman's case it is the end of an arc that spans half a century. He is no longer at the height of his influence, but he still has huge reach through his *New York Times* column and on Twitter, where he has a staggering 4.6 million followers. For critics on the left it can be infuriating to watch high-powered centrists inching their way towards seemingly obvious political conclusions. But when they do, it is consequential. By tracing Krugman's itinerary, we can shed some light on how we arrived in our current situation, with three centrists – Biden, Janet Yellen and Jerome Powell – undertaking an experiment in economic policy of historic proportions.

In the 1970s Krugman belonged to a generation of young lions at MIT, then the pre-eminent economics department in the US. The prevailing model at MIT was the so-called neoclassical synthesis, shaped since the 1940s by Paul Samuelson above all. Working from a broad acceptance of Keynesian prescriptions for macroeconomic policy, the younger economists at MIT specialised in clever models that demonstrated the often dramatic implications of market imperfections such as the limited availability of information, or the dynamics that ensue from increasing returns when increasing production actually reduces unit cost. Their increasingly complex modifications to the neoclassical synthesis resulted in what became known in the 1980s as New Keynesian economics.

The young Paul Krugman's breakthrough came when he used a model of increasing returns and product differentiation to explain the emergence of clusters of industrial specialisation which could in turn drive international trade, not as a result of natural comparative advantage, in growing bananas for example, but in manufacturing high-end products such as German-badged motor cars. It was theoretically elegant and it explained why, in the golden age of economic growth after the Second World War, it wasn't the old colonial and postcolonial exchange of raw materials for manufactured goods that dominated economic growth, but trade in manufactured goods between rich countries. The hour and a half Krugman spent laying out his new trade theory at the National Bureau of Economic Research in July 1979 was, he later wrote, 'the best ninety minutes of my life. There's a corny scene in the movie *Coal Miner's Daughter* in which the young Loretta Lynn performs for the first time in a noisy bar, and little by little everyone gets quiet and starts to listen to her singing. Well, that's what it felt like: I had, all at once, made it.'

Putting the romance of Krugman's triumph to one side, many believed that his new theory had radical policy implications. By making trade dependent on history rather than nature, it supplied a justification for an interventionist industrial policy. But Krugman was wary of such easy conclusions. As he put it in 1993, it wasn't that talk of strategic trade and industrial policy was wrong,

> but that it was not necessarily right. Or to put it more accurately, the case for strategic trade policies was not like the traditional case for free trade, which (in the old trade theory) could be made a priori without consideration of the specific details of industries. Strategic trade policies could be recommended, if at all, only on the basis of detailed quantitative knowledge of the relevant industries.

This cagey statement illuminates one of the puzzles of Krugman's early career. Apparently it was at a seminar in Little Rock, Arkansas in December 1992, as the Clinton transition team prepared for power, that Krugman first saw, to his horror, the gulf that separated highbrow economics from the prevalent protectionist mood, particularly on the progressive wing of the Democratic party. Over the following years he gained a reputation as a scourge of left-leaning critics of globalisation, attacking some of Clinton's advisers for their exaggerated accounts of the threat posed by Japan and China and their naive obsession with 'competitiveness'. In a column for *Slate* in 1997 with the Swiftian title 'In Praise of Cheap Labour', Krugman denounced the anti-globalisation movement for its failure to understand that 'bad jobs at bad wages are better than no jobs at all.' What masqueraded as progressive politics was in fact misplaced fastidiousness: American liberals didn't like the idea of consuming goods produced by poor people. When such muddled thinking affected the chances of development for nations whose people desperately needed it, it was, for Krugman, both an intellectual and a moral failure.

At the time, Krugman's victims attributed his ferocity to thwarted personal ambition. But there was more to it than that. His aggression should be understood in the context of the delicate political and intellectual balancing act that he, along with figures like Janet Yellen, Ben Bernanke and Larry Summers, had to perform as they were building the New Keynesian economics. To generate their 'Keynesian' analysis of macroeconomic dysfunction their method was to introduce market imperfections into their models. But this opens the door to indeterminacy. The more imperfections there are in a model, the less easy it is confidently to characterise the equilibrium that supposedly approximates the running of the actual economy. The result is liberating in its overturning of a simplistic faith in the self-regulating perfection of free trade or flexible markets, but it also creates an opportunity for heterodox economists and disreputable policy entrepreneurs. Upholding the rigour and status of proper economics thus requires vigilant policing. Summers, for example, can take startlingly radical positions on such issues as secular stagnation and the need to increase the bargaining power of organised labour, while at the same time feuding with the left over wealth taxes and stimulus cheques. Similarly, William Nordhaus, the Nobel Prize-winning climate economist, has spent much of his career since the 1970s policing the boundary between climate alarmism and what his work suggests is reasonable policy: his models acknowledge the climate crisis, but characterise it in such anodyne terms as to cast doubt on whether it's worth doing anything about it.

Their name notwithstanding, what the New Keynesians are policing is in fact the boundary of actually existing neoliberalism. The familiar story that America's late 20th-century market revolution originated in Chicago with the likes of Milton Friedman holds true, if at all, for the 1970s and 1980s. But in the last thirty years that story has come to serve more and more as an alibi. In the 1990s the brains behind Clinton and Blair and the Washington consensus were far more likely to be trained at places like MIT and Princeton. Meanwhile, historical neoliberalism – German ordoliberalism, Austrian economics, the Mont Pelerin Society – had been consigned to the fringes. The resilience of neoliberalism isn't down to the persistent influence of a right-wing Midwestern sect with a foreign accent, but to the weaving of New Keynesianism into the fabric of the coastal elites. New Keynesianism is, indeed, the lingua franca of the West Wing.

What sets Krugman apart within this cohort is the way he has, since the 1990s, stopped being a gatekeeper of the status quo and instead become its critic. In this respect his closest analogue is Joseph Stiglitz, also once of MIT, a member of the Clinton administration and chief economist to the World Bank. Both men have indisputable standing as members of the elite club of New Keynesians: Stiglitz was awarded the Nobel in 2001, Krugman in 2008. Where Stiglitz has been the driving force behind a variety of radical policy proposals from the UN – on financial regulation, the dollar system and carbon pricing, among other things – Krugman has focused on the American scene, progressively putting in question the terms of the New Keynesian technocratic model.

Krugman's radicalisation took place over a fifteen-year period starting with the Asian financial crisis of the late 1990s. At the outset of the crisis, Krugman was still upholding the orthodoxy: the problem of the Asian states was their crony capitalism and excessive unproductive investment. But as the crisis intensified over the summer of 1998 he re-evaluated, becoming one of the most prominent critics of the IMF for its austere prescriptions, and even going so far as to endorse capital controls.

What motivated Krugman's shift wasn't principally fellow feeling for nations that were getting a rough deal; he was uncomfortable in the company of such figures as the Malaysian prime minister Mahathir Mohamad. Instead, he had experienced an alarming intellectual realisation. The Asian crisis was strangely familiar. It was a comprehensive crisis of the sort that Keynes had accounted for so brilliantly in the *General Theory*. This was most evident in Japan. When the Japanese boom of the late 1980s and early 1990s burst, its legacy was a depression. In particular, as prices slumped and banks creaked, people began to hoard cash, the ultimate safe asset, and there was a collapse in interest rates. In such a situation, using monetary policy to lower interest rates and revive investment no longer works. As the saying goes, you can't push on a piece of string. This is the so-called liquidity trap of which Keynes warned.

Krugman's rediscovery of the liquidity trap, and his proposal to rationalise it in terms of the expectations of economic agents about the future course of prices and interest rates, is his second major contribution to macroeconomics. In this second phase of his career, from 2000, he was at Princeton, in an economics department run by Ben Bernanke before he moved to the Federal Reserve Bank. Bernanke, an economic historian as well as a monetary theorist, was preoccupied with the Great Depression. In *The Return of Depression Economics* (1999) Krugman, who combines a love of history with a lifelong passion for science fiction, argued that the market revolution of the 1980s and 1990s caused a time warp, recreating both the advantages and the risks of the Edwardian and interwar eras. It was large-scale global capital mobility, financial innovation, low inflation and a commitment to balanced budgets that set the world up for a repeat of a 1930s-style recession.

As Krugman put it in 2009, looking back to the late 1990s, 'It was as if bacteria that used to cause deadly plagues, but had long been considered conquered by modern medicine, had re-emerged in a form resistant to all the standard antibiotics.' His new mission was to travel back in time in search of an economic policy that would work as an antidote. For the world economy this might mean a return to the capital controls and regulated capital markets of the Bretton Woods era. To deal with the liquidity trap the prescription was either a massive fiscal policy (the classic Keynesian remedy), or a monetary policy sufficiently aggressive to relaunch the expectation of inflation, thus giving people an incentive to hold something other than cash. The problem was how to shift the long-term horizon of expectation. If monetary policy was to work, Krugman remarked, what the Bank of Japan needed to do was credibly commit to being irresponsible. That would scare the Japanese out of hoarding cash.

Japan's problems were serious, but Krugman believed they were sui generis. By 1995, when Summers and Robert Rubin, formerly of Goldman Sachs, were installed at the US Treasury, Krugman had made his peace with the Clinton administration. These were, in Krugman's words, the 'mature, skilful economic leaders' that America and the world needed, who 'in a pinch would do what had to be done. They would insist on responsible fiscal policies; they would act quickly and effectively to prevent a repeat of the jobless recovery of the early 1990s, let alone a slide into Japanese-style stagnation.' For Krugman at this point, responsible fiscal policy meant deficits in recessions, and healthy surpluses in the good times.

The sanguine assumption that big crises were a problem for others but not for the US was the backdrop to his decision in 1999 to join the *New York Times* as a columnist. According to Krugman his hiring reflected the paper's view that

> in an age when, more than ever, the business of America was business, the *Times* needed to broaden its op-ed commentary beyond the traditional focus on foreign affairs and domestic politics. I was brought on in the expectation that I would write about the vagaries of the new economy, the impacts of globalisation, and bad policies in other countries. I didn't expect to spend a lot of time on domestic politics, since everyone assumed that American policy would remain sensible and responsible.

Against that backdrop of national self-satisfaction, the new century would come as a shock. The Asian crisis had forced Krugman to rethink his economics, but it was political events in American that tipped him into becoming a tribune of the left. The Bush administration was easy to dislike: the stolen election, the lies that led to war, the cynical tax cuts for the rich, the climate denialism. Krugman's crusades against those outrages made him an internet sensation. But as he admitted in *The Great Unravelling*, published in August 2003, the driving force behind movement conservatism was at first a puzzle to him. 'I am not entirely sure why … we are now faced with such a radical challenge to our political and social system.' The shock of the Bush administration radicalised Krugman's politics; explaining its origins would crystallise his view of American society.

One of Krugman's defining characteristics as a thinker is that he likes simple, powerful models. In that spirit, *The Conscience of a Liberal* (2007) married his long-standing interest in inequality to a sweeping seventy-year political history of the United States. The Bush presidency's open push for inequality, he showed, was not the exception. It was the period of the 'great compression' in income inequality – from the New Deal to Johnson's Great Society – that was exceptional. The American norm was massive inequality. Since the Reagan era the wealthy elite had gone on the offensive, drumming up voters with dog-whistle racial appeals, following the model of Nixon's Southern Strategy. If there was a single factor that explained why the US did not have a comprehensive welfare state, it was racism. Welfare in America was code for race, and for black dependency in particular.

The increasing intransigence of Krugman's views on the structures of power in America in the early 2000s was striking. But so too was his continued commitment to a relatively upbeat assessment of the prospects for the American economy. Many former members of the Clinton administration anticipated with a mixture of hope and fear that Bush would soon meet his comeuppance in the form of a bond market crisis. Foreign creditors, notably China, would lose patience with America's twin deficits in budgets and trade. The dollar would plunge. Interest rates would soar. Clinton had suffered the bond market rout of 1994, after all: surely the markets would eventually find Bush out. Krugman didn't disagree, but he wasn't too worried about the outcome. The dollar would devalue and balance would be restored. If the Chinese were foolish enough to engage in an aggressive fire sale of their US Treasury holdings, not only would they suffer a large loss on their investment but their exports would be crushed by the ensuing depreciation of the dollar.

The crisis that arrived in 2008 fitted the script in so far as it dispatched the Republicans. Relations with China remained intact and the dollar held up. But contrary to Krugman's confident expectation that the markets would adjust, this was a full-blown meltdown. We habitually describe 2008 as a crisis of the banks, but it was in fact a crisis of market-based finance. What melted down wasn't just Lehman Brothers or Wall Street but the entire North Atlantic financial system. This was the fourth great push in Krugman's radicalisation. After Japan's slide into the liquidity trap, the Bush presidency and the discovery of the structural nature of inequality, the fact that a comprehensive financial crisis could hit the US itself shook his confidence deeply – and all the more so because he hadn't seen it coming. 'What I sometimes berate myself for,' he wrote, is that like other mainstream economists he had failed to see that a crisis of the 2008 type was a 'fairly likely event'. The rise of shadow banking and unstable funding like repurchasing agreements or 'repo' (short-term financing for dealers in mortgage backed securities and other bonds), should have set off alarm bells.

> Economists, of all people, should have been on guard for the fallacy of misplaced concreteness, should have realised that not everything that functions like a bank and creates bank-type systemic risks looks like a traditional bank, a big marble building with rows of tellers … I was vaguely aware of the existence of a growing sector of financial institutions that didn't look like conventional banks … Yet I gave no thought to the systemic risks.

And in a typical gesture of backhanded self-congratulation, he goes on: 'I had especially little excuse for being oblivious to these dangers given that I had actually laid great stress on balance-sheet factors in causing financial crises in emerging markets.' Elsewhere he writes: 'I had a more or less ready-made intellectual framework to accommodate these revelations: at a meta level, this was very much the same kind of crisis as Indonesia 1998 or Argentina 2002.'

Once the crisis was properly recognised it was clear what had to be done – and Obama appeared to have the people in place to do it. His economic policy team were as thoroughbred a group of New Keynesians as you could wish for. What was needed was a huge fiscal stimulus to ensure that the US didn't slide from a crippling financial crisis into a Japan-style, low-growth liquidity trap. It was the very obviousness of that diagnosis that made what happened next all the more upsetting to Krugman. In 2009 Obama and the Democratic Congress passed a stimulus, but it was hopelessly undersized – half what was required. And 2010 began with the president announcing not that more was necessary, but that it was time for belt-tightening.

In so far as Obama was involved, Krugman wasn't surprised – he had never been a fan. Obama's insistence on bipartisanship ran squarely against Krugman's darker vision of the roots of America's political divisions in racialised class inequality. The dogged opposition of the GOP, for its part, was only to be expected. What shocked Krugman was the failure of his own kind, the economists, to rally in a time of national emergency. Predictably, the

Chicago School joined the GOP opposition, but what horrified Krugman was the undeniable evidence that Obama's own economic experts were self-sabotaging, and that Larry Summers – once the teenage star of MIT and Harvard – was in the thick of it. It was he who led the push to cap the stimulus at well below a trillion dollars. 'The overall narrative,' Krugman wrote, was 'tragic. A policy initiative that was good but not good enough ended up being seen as a failure, and set the stage for an immensely destructive wrong turn.' 'We used to pity our grandfathers, who lacked both the knowledge and the compassion to fight the Great Depression effectively; now we see ourselves repeating all the old mistakes.'

Krugman was forced to confront the fact that there was something wrong not just with American politics and society, but with the discipline that had shaped him. The most penetrating essay in *Arguing with Zombies* is 'The Instability of Moderation', from November 2010. 'Watching the failure of policy over the past three years,' he writes there, 'I find myself believing, more and more, that … we were in some sense doomed to go through this … A regime that by and large lets markets work, but in which the government is ready both to rein in excesses and fight slumps – is inherently unstable. It's something that can last for a generation or so, but not much longer … the result is the wreckage we see all around us.' For the policeman of orthodoxy of the 1990s it was a shocking admission to make.

The basic idea of the MIT school of the neoclassical synthesis as defined by Samuelson was that Keynesian macroeconomics and neoclassical microeconomics were not contradictory but complementary. As Krugman put it, if you can get macro right then micro will follow. 'In the Samuelsonian synthesis, one must count on the government to ensure more or less full employment; only once that can be taken as given do the usual virtues of free markets come to the fore.' It was a dichotomised view of the world, with two different modes of analysis enshrined in separate textbooks and separate career paths for micro and macroeconomists. But as Krugman insisted, 'inconsistency in the pursuit of useful guidance is no vice. The map is not the territory, and it's OK to use different kinds of map depending on what you're trying to accomplish.'

However, while the divide may have been intellectually generative, pragmatically useful and politically palatable, it also created instabilities. The first was in the economy itself. Historical experience suggested that the successful stabilisation of financial conditions led not to the smooth functioning of markets, but to increasingly dangerous levels of leverage and speculation. Stability, in other words, bred instability. One might think this would be a point to linger over, yet Krugman merely acknowledges it and moves on. As critics have pointed out, this is something of a habit with him. Though he doesn't deny the responsibility of big banks for the shambles of 2008, he tends to downplay it, preferring to put the spotlight on bankrupt subprime lenders rather than monsters like Citigroup, overseen by Robert Rubin, Clinton's Treasury secretary. Krugman doesn't deny either that the great post-Keynesian economist Hyman Minsky, who died in 1996, had many years earlier anticipated the crisis. But even among the ruins of the New Keynesian orthodoxy, Krugman doesn't want to linger over intellectual outsiders. The gatekeeper's habits die hard.

Where Krugman's analysis is truly scintillating, though, is in its anatomy of the political and intellectual instability of the neoclassical synthesis itself. One problem was a tension within the economics profession itself. Samuelson's dichotomy had tempted generations of economic theorists into trying to close the gap between the micro and the macro. The sort of work that Krugman, Stiglitz, Yellen and others did had suggested how this might be accomplished. They started by taking complex aggregate crises and problems, such as mass involuntary unemployment, and sought to explain them in terms of the large-scale effects of micro imperfections. But they didn't elaborate their brilliant insights into general models. When New Keynesians did set about that task in the 1990s, what resulted were the so-called Dynamic Stochastic General Equilibrium models. These finally achieved the longed-for synthesis of micro and macroeconomics. They were built on rational choice foundations with more or less imperfect markets (depending on the calibration of the model), labour market adjustment costs and so on. DSGE models were formally satisfying and well-suited to tracking normal economic conditions, but – as even their chief exponents had to admit – they had only limited capacity to describe, let alone predict, the violent financial shocks that struck the North Atlantic economy in 2008. The lessons of Asia and Japan in the late 1990s, the warnings of *The Return of Depression Economics*, had not been heeded.

As economics was ossifying as a discipline, Krugman explains, a parallel political story was unfolding, which contributed to the paralysis of economic policy in 2008. While fiscal policy was stymied by conservative opposition and worries about debt sustainability, central banks had retained a degree of freedom to act. This, in Krugman's view, was Milton Friedman's paradoxical legacy. Though Friedman is commonly regarded as one of the fathers of the market revolution, he was at heart a creature of Samuelson's neoclassical synthesis. He combined his passion for markets and the 'freedom to choose' at the microeconomic level with an insistence that the economy as a whole must be stabilised at the macro level by monetary policy. What Friedman promised was that non-discretionary, mechanical regulation of the money supply would in due course stabilise prices too. When that turned out to be hopelessly naive – defining the money supply and controlling it proved impossible and prices responded erratically – central bankers resorted instead to ad hoc decision-making, personified by Alan Greenspan, the guru of the Federal Reserve in the 1990s and early 2000s. If they were independent of elected politicians they were also free to ignore academic economics. The massive interventions used to stabilise the financial system were ad hoc decision-making taken to the limit; by the same token these interventions also lacked political and intellectual legitimacy. The central bankers faced a political backlash which spilled over from fiscal to monetary policy and hobbled their response.

Krugman first published 'The Instability of Moderation' on his blog in November 2010, just as the Federal Reserve was launching the second round of quantitative easing, its asset purchase programme. It was too little too late. The shock of 2008 had done lasting damage. The recovery was slow and lopsided, benefiting financial markets and the wealthy rather than ordinary Americans. The situation in Europe was even worse. To Krugman's mind this experience demonstrated that the basic assumption of Samuelson's neoclassical synthesis was faulty. Macroeconomic policy could not be expected to come swiftly to the rescue. In the long run, Krugman advocated using much tougher banking regulation to ensure, from the bottom up, that crises could not occur, thus placing less emphasis on macro stabilisation. But in 2010, the economic policy agenda was moving in the wrong direction. The world espoused austerity with the UK in the lead and Germany piling in. Then the Tea Party Republicans won the midterms in November 2010, paralysing congressional business. Obama won again in 2012, but the House remained in the hands of the GOP. Policy was deadlocked.

It is a measure of Krugman's increasing despair that by 2013 his jaundiced view of American class society converged with his worries about the intellectual framing of economics. As Republican and Democratic centrists struggled to fashion a bipartisan majority around a programme to slash the deficit, it dawned on Krugman that the entirety of what he had once confidently described as 'responsible' economic policy was shot through with class interest. Talk of fiscal sustainability wasn't just bad economics; it was, Krugman now believed, class war by stealth. In *End This Depression Now* (2012), Krugman broke one of the taboos that separate mainstream New Keynesians from their left-wing heterodox counterparts. He invoked the Polish economist Michał Kalecki, whose work is commonly cited as having bridged Keynesianism and Marxism. In 1943, in wartime exile in Oxford, Kalecki had explained why delivering stabilisation policy in a sustained way, as Keynes envisioned, might not be possible in a class-divided society. At the depths of the crisis, Keynesians would be summoned by the powers that be to do the minimum that was necessary, but as soon as the worst had passed, well before the economy reached full employment, the same policies would be anathematised as undermining 'confidence'. The balance of what was 'sensible' would be set by the interests of the wealthiest and most secure. Their principal concern wasn't full employment, but profit, which dictated stimulus in a slump and restraint whenever profits were squeezed by increased wages in a tightening labour market. Five years before Samuelson, in his classic textbook of 1948, laid out his vision of the complementarity of macroeconomic management and market-based microeconomics, Kalecki had already shown why it would end in failure.

As Krugman remarked, when he first read Kalecki's essay he 'thought it was over the top. Kalecki was, after all, a declared Marxist … But, if you haven't been radicalised by recent events, you haven't been paying attention; and policy discourse since 2008 has run exactly along the lines Kalecki predicted.' After a short burst of emergency Keynesianism, by 2010 deficits not unemployment were the problem. And any effort to push for better conditions was immediately countered with the insistence that it would induce 'economic policy uncertainty' and hold the economy back. It wasn't unemployed Americans, Krugman raged, but imaginary 'confidence fairies' that were dictating policy.

Krugman reassured himself by adding that Kalecki was far more of a Keynesian than he was a Marxist, but quibbles aside, Krugman's own transformation could hardly be denied. The members of the American left he had savaged in the 1990s were now his friends. He was talking about power in the starkest terms. But the question was unavoidable: once you lost your faith in the state as a tool of reformist intervention, once you truly reckoned with the omnipresence of class power, what choices remained but fatalism or a demand for a revolutionary politics? Between those alternatives, respectively unappetising and unrealistic, there was perhaps a third option. America had, after all, been here before. FDR's New Deal too had been hemmed in. It had delivered far less than promised, until the floodgates were finally opened by the Second World War. The Great Depression, Krugman wrote, 'ended largely thanks to a guy named Adolf Hitler. He created a human catastrophe, which also led to a lot of government spending.' '*Economics*,' he wrote in another essay, '*is not a morality play*. It's not a happy story in which virtue is rewarded and vice punished.'

'If it were announced that we faced a threat from space aliens and needed to build up to defend ourselves,' Krugman said in 2012, 'we'd have full employment in a year and a half.' If 21st-century America needed an enemy, China was one candidate. On foreign policy, Krugman is perhaps best described as a left patriot. Where he had once downplayed the impact of Chinese imports on the US economy, he now declared that China's currency policy was America's enemy: by manipulating its exchange rate Beijing was dumping exports on America. But to Krugman's frustration Obama never turned the pivot towards Asia into a concerted economic strategy.

You might argue that in Covid we have found an enemy of precisely the kind Krugman was imagining. As far as Europe is concerned, an alien space invasion isn't an implausible model for Covid. This novel threat broke down inhibitions in Berlin, and the Eurozone's response was far more ambitious than it was after 2008. But America isn't the Eurozone. For all Krugman's gloom, it didn't take a new world war to flip the economic policy switch. All it took was an election. Almost immediately after Trump's victory in November 2016, the fiscal taps were opened. As under Reagan in the 1980s and Bush in the 2000s, all fear of deficits disappeared.

Compelling as Krugman may have found the Kaleckian vision, it does not describe the United States in the 21st century. The balance of class forces Kalecki had assumed in the 1940s no longer exists. In America in 2017 big business did not object to running the economy hot. There was no real threat of wage pressure: a flutter of strikes perhaps, but nothing serious. No chance of inflationary expectations becoming embedded in adjustments to the cost of living. No wage-price spiral. Everything to gain from tax cuts for corporations and the rich. The Kaleckian scenario, from today's point of view, presumed too much countervailing force from the left and by the same token too many constraints on active economic policy.

Trump opened a new era of voluntarism in economic policy. You really could do what you liked. Neither external threats in the form of bond market vigilantes, nor domestic counterpressure in the form of contending social classes, were any longer effective constraints. American conservatives had never been as keen on the slogan There Is No Alternative as Margaret Thatcher or Angela Merkel. Under Trump there was simply no limit to the GOP's opportunism. Typically, the centre and left did more intellectual work to come to terms with the new situation. The IMF's former chief economist, Olivier Blanchard, had painstakingly demonstrated the sustainability of much higher levels of debt in a world of low interest rates. Meanwhile, Modern Monetary Theory had its moment in the sun. Blending state theories of money, radical Keynesianism of 1940s vintage and inside knowledge of the plumbing of the modern financial markets, MMT argued that debt wasn't a problem at all. The only limit on an expansionary economic policy should be the inflation rate; otherwise the overriding priority should be full employment.

It's telling that despite the apparent political affinity between Krugman and the proponents of MMT, its heresies revived his impulse to play policeman. After long and fruitless exchanges, Krugman declared that MMT was either silly or merely old-fashioned Keynesianism warmed over. In 2020 these doctrinal debates were overtaken by the reality of the Covid shock. In March 2020, as more than twenty million Americans lost their jobs in a matter of weeks, Congress united around a gigantic fiscal stimulus. At the Fed, the centrist Republican Jerome Powell embarked on a programme of intervention that dwarfed anything contemplated by Bernanke. And with a Democratic majority in Congress the impetus has carried through to 2021. The mantra on everyone's lips is a blunt statement of Krugman's position. Do not repeat the mistakes of the early Obama administration. Go large. If the Republicans have now decided to be fiscal conservatives, ignore them. There has been no opposition from big business. What the Chamber of Commerce did not like was the $15 minimum wage. Once that was dropped, it did not oppose the $1.9 trillion plan; it seems that business fears legislative intervention more than it does Kalecki-style pressure in the labour market.

The Krugmanification of the Democrats wasn't won without a fight. There are fiscal hawks in Biden's entourage. At one point he even counted Larry Summers as an adviser. That didn't last: the empowered left wing of the Dems wouldn't stand for it. But although he is no longer in the inner circle, Summers hasn't surrendered. Opposing untargeted stimulus checks, calling for more focus on investment, he recently declared the Biden administration's fiscal policy the most irresponsible in forty years – the result, he remarked bitterly, of the leverage handed to the left of the Democratic Party by the absolute refusal of the GOP to co-operate.

The first instinct of the wonks inside the Biden administration is to counter Summers's arguments on his own terms. Their models show, they insist, that the risks of overheating and inflation are slight. What they don't say is that being credibly committed to running the economy hot is precisely the point. This is what Krugman meant in 1998 when he called on the Bank of Japan to make a credible commitment to irresponsibility. To avoid the risk of a liquidity trap what you want to encourage is precisely a general belief that inflation is set to pick up. In the late 1990s Krugman, like a good New Keynesian, envisioned monetary and fiscal policy as substitutes for each other. In 2021 America is getting a massive dose of both. As the Fed announced in August last year, the plan is to get inflation above 2 per cent and to dry out the labour market. The bond markets may flinch, but if the sell-off gets too bad, the Fed can always buy more bonds.

While Summers, clinging to his generation's assumptions about the proper balance between politics and technocratic judgment, wants to drag the conversation back to inflation and 'output gaps', what is actually at stake is the future of the republic. In 2020 America came through something close to an existential social and political crisis. That crisis is now understood by large parts of the Democratic Party not as an unforeseeable shock, but as enabled by the forty years of 'responsibility' that Summers invokes as the gold standard: successive Democratic administrations failing to address inequality and handing the game to the utterly unscrupulous Republicans. With the pandemic still running through American society, and the midterms looming in 2022, the most irresponsible thing to do would be to risk electoral disaster of the sort the Democrats experienced in 2010. No one has made this case more consistently than Krugman. 'Debt isn't and never was an existential threat to our nation's future,' Krugman wrote in February. 'The real existential threat is an illiberal GOP that looks more like Europe's far-right extremists than a normal political party. Weakening policy in ways that might help that party's prospects is a terrible idea – and I think Democrats realise that.'

There is a further factor which becomes ever clearer as the Biden administration lays out its foreign policy and the way it connects to other domains. If what is at stake is the future of American democracy, this is a matter of both internal balance and external standing. The entire generation of US policymakers who came of age in the 1960s and 1970s were shaped by Vietnam and the era of malaise that followed. That is the reason the 1990s have for such a long time been the touchstone of American success. Biden and his secretary of state, Anthony Blinken, are unapologetic descendants of that era of unipolar leadership. As Biden himself has put it, China wants to be number one, and it isn't going to happen on his watch. Why not? Because America is going to grow. The infrastructure programme Biden announced on 31 March is designed, like the 'great projects of the past', to 'unify and mobilise the country to meet the great challenges of our time: the climate crisis and the ambitions of an autocratic China'. Perhaps Krugman's Martians have arrived after all.