

KRUGMANLAND



By Marc Stiegler

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My first series of short realtime posts on the events during the economic recovery of Atlantea met with fierce skepticism. But now that so many Atlantean millionaires are touring the world, the skepticism has faded, and an outcry for a more comprehensive writeup has arisen in its stead. Since I myself am also a multimillionaire, having been in Atlantea during the transformation, I now have the time to integrate those posts, along with additional material, into a coherent picture. Here, then, is the full story, as seen from the unique insider's vantage I held during that remarkable time. I hereby affirm and attest that the following historical record is true in every detail.

I went to the United Societies of Atlantea, commonly known as the USA, to report on the aftermath of the Great Downturn there. While investigating the state of the nation, I spoke with Roberta Riche, a Keynesian economist well known throughout Atlantea. Roberta was a woman of remarkable acuity. With her streaming blond hair backlit by the dawn, it formed an angelic halo to frame the soft curves of her face, tanned to copper perfection. At twilight her ocean-green contact lenses glowed with empathy. But more seductive than even her cover picture on the New Work Times were her belief and her words. "To keep the economy strong, everyone, especially the government, must spend. It makes only a little difference what the government spends your money on, they can always make up for spending badly by spending more." And when she said it, and looked into your eyes, you knew what she secretly meant: she did not want the taxpayer's money spent merely on a variety of worthy goals, but rather, she wanted it spent just for you, on the one noble purpose you personally held most dear. When I introduced her to the writings of Paul Krugman, the Nobel Prize winning economist whose blog spelled out the steps needed to make nations great, she was transported with delight. We became good friends.

It was at this point that Wesley Em, known to everyone simply as Wes because of his deep personal relationship with the Common Man, swept into the Elliptical Office on a tsunami of enthusiasm for his "Sirloin on Every Barbie" platform. A jovial rotund fellow with a big smile and brown eyes warm as chocolate, everyone knew that he cared about each individual person as much as he cared about the people as a whole. He was a Harvard lawyer who had made his living suing empty-hearted corporations. Such was his prowess that he had successfully bankrupted dozens of companies employing tens of thousands of workers, all to make sure his clients got their fair share. When accused by opponents of having personally caused a two percent increase in unemployment, he responded in his usual ebullient manner, "All for one and one for all, you know. I particularly focus on the 'all for one' part on behalf of my clients. Vote for me and you can be my client, too." His ShareToCare party had gotten super-majorities in both houses of Congress. No one could filibuster or block or even slow down his initiatives. He had free reign.

His first action upon entering the Beige House was to bring in Roberta as his economic advisor. This is how I came to be admitted into the Elliptical Office as the official recorder of all the conversations leading to the USA's remarkable leap forward.

As we entered the room for our first meeting, we found Wes scrutinizing himself in the mirror he had planted next to his imposing cherry-wood desk in the Office. He seemed to be making sure that no hair had gone askew. He was bald.

The room was as quiet as a lullaby as I moved to take my chair on the far side of the room. I started recording.

Wes pointed Roberta to a chair, and moved to the table with the brandy. He poured the fiery liquid into his snifter as he cleared his throat. "Ok, Roberta, I've promised the people I would spend enough money to dig us out of this Brobdingnagian pit of debt we're in. What's our first step?"

Roberta crossed her legs at the ankles. She arched her back with the grace of a cougar, then leaned forward. "Just a few moments of patience are in order, I think, Wes. First we should get a second economic advisor, someone the opposition would appreciate. An Austrian economist perhaps, to give us an alternate opinion and to show we are evenhanded in accepting good ideas."

Wes stood stock still, his snifter frozen in his hand as he contemplated the strategic merits of her plan. "Excellent idea, Roberta. Then if something goes wrong, we can blame it on him."

Roberta nodded. "That too." She muttered under her breath, in a voice that whispered with the beauty of a clear mountain breeze, "and even better, so I can enjoy watching the expressions on the old goat's face as we desecrate every principle he has ever held."

"What was that?" Wes asked.

Roberta tilted her head at an angle precisely calculated for maximizing her charm and gave him the smile that made men forget the last question they'd asked. "I think we should get Jay Gelt as the second advisor."

It was an easy sell. Tall, thin, graying, Gelt was much admired by the opposition. Warm as an iceberg, he never spoke of the underprivileged as if they deserved special treatment. He spoke only of heartless things, like moral hazard and pricing as information and incentive alignment.

Once, while debating Roberta on the Sunday morning talk show *Face the Press*, Gelt observed that "In the long run Roberta, your passion for deep tanning will leave you with wrinkled old skin." Roberta took it with good grace, laughing, "In the long run, we're all dead."¹ To which Gelt

¹ Popular quote from Keynes. To be fair, Keynes followed up with a more sensible statement, "Economists set themselves too easy, too useless a task if in tempestuous seasons they can only tell us that when the storm is long past the ocean is flat again." One wonders whether Keynes might have mentioned, if he could see the results of his words today, that when navigating tempestuous seasons, in the search for calm waters one must avoid driving full throttle towards the nearest iceberg.

replied drily, "Let us hope the long run is not too short." Everyone in the USA thought the exchange was delicious, but when translated for the audience in Greece, no one caught the joke.

Gelt was leery of accepting the offer to become a presidential economic advisor.

"You know what we'll do if you don't join us, Jay," Roberta explained, "We'll boost that aggregate demand through the roof."

"But you'll do that anyway, no matter what I say," he protested.

"But with your help, we are more likely to spend the money supporting human action. We don't really want to design the economy, you know. We just want to fix it." She stared into his eyes with the look that never failed to achieve her goals.

Jay shook his head, trying to clear it, to no avail. Austrian he might have been, but in the end, he was still a human male. Resistance was futile. Gelt pursed his lips. "I suppose you'll badger me till I agree," he concluded. And thus Roberta held sway.

The first historic meeting of the three of them (with me as the fourth, sitting quietly in a corner of the Elliptical Office) took place the next day. Roberta insisted they pull their chairs together in a huddle, to look over a stack of printouts she had on the coffee table on the west side of the room.

Gelt looked at the printouts in dismay. "Krugman's blog," he complained.

Roberta nodded. "The most brilliant economist of our time," she stated happily. "I have a selection of his most compelling posts here. I think we should follow Krugman's advice to the letter."

Gelt's pursed lips softened as he reigned in his temper. "He's a very smart man. But you have to watch the claims he makes." He shuffled through the pages. "Ah, yes. Here's the one where he claims the entire Austrian school of economics has no more contribution to make than to recommend going back to the gold standard.² We're all gold bugs, according to this."

Roberta looked puzzled. "But you *are* all gold bugs, aren't you?"

Gelt closed his eyes for a moment. "Just because a few famous people who call themselves Austrians are gold bugs does not make gold the main focus of Austrian economics. F.A. Hayek, who must surely count as an Austrian, long ago wrote a treatise on replacing both gold and government paper with something better."³ He grunted. "Calling us gold bugs is simply

² <http://www.nytimes.com/2011/12/16/opinion/gop-monetary-madness.html>. Dr. Krugman is correct about Ron Paul, but painting the entire Austrian school with this brush is, well, a lie.

³ <http://mises.org/document/3983>.

intellectually dishonest. Krugman certainly has the educational background to know better. It's bad enough when a humorist plays fast and loose with the facts. It's criminal when a person with such credentials uses such cheap shots to dismiss other Nobel Prize winners."

Wes was scanning the pages with the speed that could only be achieved by one who sees only the parts of the page he wants to believe. "This is great stuff. He talks about how important it is to spend, but does not seem all that interested in what one spends it on."

Roberta smiled. "That's the wondrous thing about Keynesian economics, Wes. It makes almost no difference how you spend. Spending is its own reward."

Wes was so impressed with this, his face glowed as if lit with a holy illumination. "So let me make sure I understand." He licked his lips as he translated this concept into terms a government bureaucrat could grasp. "Can any fool politician fulfill the Keynesian dream just by dumping potloads of taxpayer cash into the hands of his favorite cronies?"

Roberta acknowledged this with a flourish of her hand. "Right on target, Wes. Keynes himself once suggested filling old bottles with cash, and burying them in abandoned coal mines."⁴

You could hear Gelt's teeth grinding. "Wouldn't work here," he scoffed, "We don't have enough coal mines to hold the amount of money you two want to spend."

Wes brightened. "But it would be great in the coal mining parts of the country, there's a lot of unemployment there since we've started fracking natural gas, using it as a substitute for coal."

Roberta nodded. "It would be good for the whole economy. Since fracking natural gas employs fewer people, and since the power plants' output is so clean they don't need to buy expensive filtration equipment, and since the resulting electricity costs less, econometric analysis shows that fracking reduces economic activity."

Wes nodded his head for a moment, then shook it. "But I can't help feeling like we should do something that makes people feel more productive than pulling money from bottles."

Roberta rubbed Wes's bald head affectionately. "How old-fashioned, Wes." She pondered a moment. "Still, we can look to Krugman for guidance."

Wes studied the printouts a few moments more. "You know, every spending plan the Democrats in America have ever devised has met with Krugman's approval."⁵

⁴ The General Theory. To be fair, Keynes suggested this only as a last resort if you could not get people to agree to do something better. But he seemed to really believe this was a lot better than nothing. And perhaps, in an economic catastrophe as horrific as the Great Depression, he might even have been right.

⁵ To be fair, Krugman has written so many blog entries, far beyond the number a working person has time to read, there is probably somewhere a criticism of some Democratic spending plan. Somewhere.

Roberta chuckled. "Yes. The only thing the Democrats have ever done wrong is not spend enough money fast enough."

Wes clapped his hands delightedly. "I'm sure we can overcome that problem." You could see the light go on in his eyes as he clapped again for attention. "So! We can ensure that all our spending plans are effective by becoming Democrats!" He got on the phone to the leadership of the ShareToCare party. They held a press conference that afternoon announcing they had changed the name of the party from the ShareToCarers to the Democrats.

And thereafter, all their spending plans were wise.

But they had ended the meeting without deciding exactly which wise spending plan to use. They picked up the conversation the next morning. Roberta and Wes meandered through different alternatives, rejecting the use of helicopters to drop sacks of money early in the discussion. Wes complained, "The recipients' self-esteem would fall from not getting a proper sense of having earned their money."

They briefly discussed building a Maginot Wall on the southern border with Mexarcana. Wes observed, "It would give the opposition a chance to vote in favor of something for a change. And there's no limit on the amount of money we could burn trying to make it work."

Gelt was unimpressed. "When the French built the original Maginot Line, it nearly bankrupted them."

But Roberta knew the answer. "That was before Keynes wrote the General Theory. They had no way of knowing they were boosting aggregate demand."

Gelt pressed on. "It wouldn't work. The first Maginot Line couldn't even keep out the Germans. And the Germans weren't half as eager to cross the border as the Mexarcansians are."

Roberta still had the answers. "Of course it would work. We'd give it a noble sounding name --"

Wes interrupted. "The Save the Affordable Jobs for the Patriotic Children Act." Wes was great at coming up with noble names.

"-- and it would do exactly what the name said it would do," Roberta finished.

There was some discussion of technical issues. The only way to build the wall cost effectively would be to hire large numbers of illegal immigrants, but the Davis-Bacon Act required all such projects to be done at union wage rates, and despite the Equal Employment Opportunity regulations, the unions did not include an adequate number of such workers.

Roberta of course pointed out that this was fine; if they spent the money badly they could just spend more. But she hesitated, and finally confessed, "I'm not so sure this is a good idea."

Both Wes and Gelt reeled with amazement. It was the first time they had ever heard Roberta say a doubtful word on a spending plan.

She explained. "I don't think Krugman would approve. It doesn't really fit with the conscience of a liberal."

Surprisingly, Gelt grunted a sound of approval. "Nor does it fit with the conscience of an Austrian. The Austrian conscience and the Austrian economic theory align on this matter⁶."

Giving up on the Maginot Wall, they pored through Krugman's printouts, but received limited advice.

Gelt became increasingly agitated. He snorted. "You could pay people to break windows, Wes. That would certainly feel productive. And you would get the additional economic boost of the private economy hiring window repairmen."

Roberta's smile lit the room. "That would work nationwide. And it would work especially well in the inner cities, where unemployment is highest and at the same time the amount of glass to be broken is greatest."

Gelt stared at her. "I was joking."

Wes leaped to his feet, the printouts forgotten. "Cash for Smashers, we'll call it!" He started pacing, the excitement overcoming him. "That old American program, Cash for Clunkers, we can put that in the shade!"

Roberta too was enraptured with the idea. "You know, I always thought Cash for Clunkers was a great idea inadequately implemented. It was only a voluntary program."

Wes got the point quickly. "Yes, if they had forced everyone to destroy their cars and replace them, the country would have recovered in a matter of months."

Gelt added darkly. "Keynes himself observed that his economic principles were better aligned with totalitarianism than with democracy.⁷ Only force can make people act so ... irrationally."

Roberta exclaimed, "Nonsense! People are irrational all the time anyway. That is why we can do so much to help and guide them."

⁶ Milton Friedman, another Nobel Prize winning economist, once observed that he had long ago worried that, in seeking economic efficiency, he would find that it required government control of the citizens. He was greatly relieved when he realized that economic efficiency is best achieved by economic freedom.

⁷ The General Theory, Keynes. "Nevertheless the theory of output as a whole, which is what the following book purports to provide, is much more easily adapted to the conditions of a totalitarian state"

Gelt sighed. "You seem unfamiliar with the Fatal Conceit."

Wes looked puzzled. "Conceit isn't fatal."

Roberta patted Wes on the shoulder. "The Fatal Conceit is an Austrian thing, Wes. It's the realization that, since you are smarter than other people, you can run their lives better than they can."

Gelt coughed. "It is the *illusion*, that you *think* you can run their lives better. Even if you can only run their lives by imposing compulsory laws and regulations that deprive all people of the only choices that make good sense for particular people in specific circumstances."

Roberta waved her hand dismissively. Her diamond rings sparkled with mesmerizing incandescence. "Whatever."

Gelt continued. "The Fatal Conceit is a malfunction of the human thought process to which extremely smart people are particularly vulnerable. Indeed, the smarter the person, the more vulnerable."

Wes thought he'd have a little joke. "So I'm immune, heh?"

Gelt stared at him darkly. "Brilliant people aren't the only ones vulnerable. Fatal Conceit is almost a requirement for politicians, despite limited intellect. If they didn't suffer from the conceit, most would go into some other line of work. And the Fatal Conceit is usually a pillar of Keynesian economic policy.⁸"

Roberta folded her arms over her chest. "Bah! I know you think I suffer from the Fatal Conceit, Jay. But really, I'm just a humble economist, perhaps a little better than a competent dentist. All I'm doing is following the advice of Krugman. Surely he knows about the Fatal Conceit, even though he never mentions it as a risk. And he is much too brilliant to fall into a trap like that."

Gelt looked to the skies. "You didn't hear a word I said, did you?"

Wes shook his head. "I don't get the point. I mean, it is pretty easy to run someone's life better than they can themselves. We can put a sirloin on every barbie, for example."

⁸ The Fatal Conceit is not quite a required pillar of Keynesian economic *theory*. Keynesian policy makers with a deep understanding of the Conceit might still choose, in the face of wage/price stickiness, to prevent a catastrophic downward spiral by artificially pumping demand. But they would understand that they were choosing temporary efficacy over long term efficiency, i.e., they would understand they were misallocating the people's resources, and their intervention would be modest. Such policy makers would be slow to boost spending, modest when spending, and swift to reduce spending. And above all, they would avoid gross misallocations leading to a new bubble. The difficulty of avoiding new bubbles is one legitimate reason for Austrian skepticism about the whole approach.

Gelt asked, "How many vegetarians joined that campaign, Wes?"

Roberta saved Wes from having to answer. "I know, I know, you think that one man's trash is another man's treasure. And so no one can measure the true wealth of even a single person except that one person himself." She pursed her lips. "But we must not take that kind of thing too seriously. I mean, if that were true, it would break the link between money and wealth." She took a deep breath. "How could we calculate the success of the economy if true wealth were really that personal? What could we measure that would allow us to control the economy effectively?"

Gelt whispered. "Indeed."

Wes went back to the earlier point. "Anyway, we were talking about the ways in which Cash for Smashers is better than Cash for Clunkers. We will force people to participate by offering up their windows. Forcing people to participate is for their own good, after all."

Gelt grunted. "The road to serfdom⁹ is paved with such goodness."

Wes and Roberta looked at each other with a sad shake of the head. Roberta concluded on an upbeat note, "I think the Cash for Smashers campaign is going to go down in history as a turning point in economic development."

And oddly enough, Gelt agreed.

The advent of Cash for Smashers marked the real beginning of Krugmanomics in the USA. The first months of the program saw an immense jump in economic activity. For the first time teenage unemployment fell below the overall average. Teenagers, it seemed, had a natural talent for breaking windows.

There were hiccups. Many judges, and even more policeman, had trouble absorbing the idea that professionals who broke windows were not also breaking the law. But such people were quickly given the opportunity to find employment in more suitable professions.

Prosperity continued.

As the financial world digested the rate of improvement in the USA national economic statistics, it became clear that USA treasury bonds made the safest, most risk-free place to store their cash, driving interest rates to an all-time low.

The econometrics improved even further as secondary industries grew up to support the Glass

⁹ "Road to Serfdom" by F.A. Hayek was so impressive that even Keynes praised it.

Smashers. Classes in community college on window repair filled to capacity. New courses were added to train people in techniques for smashing windows with maximum speed and minimal effort. Bloggers garnished lush revenue streams as they discussed the relative merits of baseball bats versus hockey sticks for smashing. The equipment manufacturers who produced baseball pitching machines had a field day as they captured a leading position in the market for remote-control window smashing: with their new line of portable pitchers you could break the window from the sidewalk without having to walk up to the building.

But after a time new obstacles appeared, inhibiting the plan's continued success. In the first year of the plan, the Smashers far outpaced the Repairmen. The number of windows available for smashing started to fall as the window openings were covered with plywood. Entrepreneurs started breaking the plywood covers, claiming they had broken the equivalent of a window, but a cranky judge in Tennessee, where skepticism about the plan smoldered, threw out the claim.

In the second year the Repairmen started to catch up, but a more insidious problem arose. Some people just left the plywood covers in place and did not replace them, while others replaced them with bulletproof glass. Worse, all new buildings were being constructed with very small windows of plexiglass, or with no windows at all. Soon productivity started to fall. Doubts arose that the USA could keep up the pace. Interest rates on USA bonds started to rise. The New York Times, which had gleefully reported on the excellently vast spending by the government up to this point, now gleefully reported on the coming fall of the government for having followed policies they had so richly praised moments earlier.

One moonless midnight, Wes called us all in for an emergency crisis management meeting. The Elliptical Office had a fine bay window, through which one could see the stars in their distant millions as they circled around the Beige House.

Wes explained. "We have to come up with a new plan. I just received word. In the morning the Morbid's rating agency is going to downgrade our bonds." He paused. "I really don't understand this, actually. Morbid's is one of only a handful of government-authorized rating agencies, carefully selected for their skillful meeting of all government requirements. They don't predict bond defaults until after the defaults take place. Where did they get the idea they could predict the future, anyway?. Strange."

Roberta brought her hands to her face in dismay. "Oh no! We are so close to achieving a breakthrough level of self-sustaining economics!"

Gelt grunted. "I guess the long run is now measured in hours."

Wes began pacing, causing him to sweat profusely. "We have to do something. There has to be a law we can pass that will fix this. We can fix anything with just a few more laws."

Silence fell on the room.

"We could start constructing skyscrapers out of glass nationwide," offered Roberta.

Gelt chuckled. "They'd collapse, Roberta. First you'd need someone to design such a crazy glass house. Then you'd need to force your building code regulators to allow it, as well. It would take years to get approval through all the regulatory agencies Wes's own party created, even if it were an excellent design, which it is not."

Wes suggested an alternative. "We could retrofit existing skyscrapers."

Gelt rolled his eyes. A crack appeared in his face, which I later learned to recognize as the smile he wore as he was about to make a joke. "Or," he suggested, "You could just pass a law requiring every building to retrofit lots of windows."

Wes stopped in mid-flight, his eyes growing wide. "Brilliant!"

Roberta almost leapt out of her chair. "Fabulous! Jay, this is our salvation. I had no idea you could make such a contribution!"

Gelt stared at them as if he had just been transported to an insane asylum. "I was making a joke", he explained.

Wes clapped him on the shoulder. "Who cares? It's a great idea regardless."

Roberta sashayed over to Gelt's chair and wrapped her arms tightly around him. "You're our savior. Wes, when we announce the new plan, we have to give Jay full credit."

Gelt's voice was muffled by Roberta's hug. "I would just as soon not get the credit," Gelt mumbled, almost overpowered by the fragrance of her perfume.

Wes shook his finger. "Nonsense. No false modesty is allowed here."

Wes called a press conference at dawn, before the stock markets opened, and announced the Jay Gelt Window Refurbishing Act. Gelt did not attend. When questioned in the days following the event, he responded, "The problem with Keynesians is not that they cannot take a joke. The problem is, they cannot recognize a joke, and will rush off to implement it." This was not reported in the New York Times. It was not considered humorous.

Over the following months, the bureaucrats in the Cash for Smashers program crafted the detailed regulations for breakable window fixtures. The size of the required windows was rigorously specified: large enough to be easily broken with a swift blow to the middle, small enough so that many could be packed onto the wall of a building. Windows had to be erected in every square inch of wall area that was not load-bearing. No plexiglass or other unusually strong materials were allowed, excessive window thicknesses were forbidden.

The cost of refurbishing all the windows in the nation was enormous. Econometric analysis showed staggering growth in economic activity. The markets calmed immediately upon seeing the numbers.

And as the regulations came into effect, and ever more buildings were fully retrofitted, productivity for the Smashers soared. "I'm knocking off ten of these new windows for every one that I used to be able to smash," John Stone, a burly fellow interviewed by the New York Times, announced proudly, swinging his titanium hockey stick on his shoulder.

The Repairmen were pleased as well. "The broken windows are lined up right next to each other," Kimberly Matson, a thin girl with bookish eyeglasses, covered in dust from old putty, explained. "I can repair half a dozen windows without having to shift my work materials."

About the only person who disapproved was Jack Producer, a farmer from Nebraska. "Demmed foolishness," he muttered when accosted upon leaving his wheat field. His response was published in the New York Times because it was so funny for a farmer to have an opinion on economic policy.

As the productivity started rising once again, the interest on USA Treasury bills fell even further, setting new records almost every day. Which was fortunate since government outlays to pay Smashers the going rate for broken windows soared, and record-breaking amounts of debt had to be issued to pay them off.

Day after day, Gelt kept trying to get them to pay attention to the rising mountain of debt. "Why did Egyptian civilization fall?" he asked one day. "The pharaohs had an instinctive grasp of Keynesian economics far beyond what any modern politician can claim. Why did the pharaohs, driving their economy with massive spending on pyramids, not take over the world? Why are we not bowing down to the god-king in Cairo who rules us all, if spending is such a great solution to all problems?"

Roberta chuckled. "Oh, Jay, you are such wit. As Krugman proved, national debt is irrelevant to the nation's economic health. Debt rises because of failing productivity; productivity does not fall because government profligacy sucks investable funds out of the economy.¹⁰ We have great productivity, as you can see here." She held up a sheet of paper. The numbers on the sheet were re-computed every day for her perusal; every number that could possibly be important for commanding and controlling an economy of 300 million people was presented. She frowned. "You know, our interest rates are so low that inflation makes them negative. The more debt we run up, the more money we have. I think the economists who worry about national debt are worrying about the wrong thing. It's the interest payments that matter. Economists should stop worrying about debt, and worry only about how much money is being spent on interest. Using that as a basis, we are in great shape."

¹⁰ "Debt and Growth: The State of the Debate", <http://krugman.blogs.nytimes.com/2013/05/31/debt-and-growth-the-state-of-the-debate/>

Gelt reached up with his hands to his throat, as though he were choking. "But what happens when the interest rates rise?" As Roberta began to speak, he held up his hands in surrender. "Never mind. That's only in the long run."

Roberta melted into laughter. "We'll make a Keynesian out of you yet, Jay."

Another time, Gelt tried to use Krugman's own words to attract Roberta's concern. "Look here, even Krugman says that high levels of government spending should occur only during a downturn."

Roberta did not even bother to look up from her page of numbers; she'd expected Gelt to try this trick for weeks. "Two problems with your implication, Jay. First of all, we *are* in an economic downturn." She looked up at him sincerely. "Can you deny that, if we stopped the Cash for Smashers program, the economy would collapse?"

Gelt shuddered; he clearly agreed. The Cash for Smashers program was now so deeply embedded in the economic framework that scaling it down would cause the very economic crisis it had been introduced to prevent.

"The second problem, Jay, is this. Please note that Krugman hardly ever acknowledges a time or place where the economy is *not* in a downturn, and never identifies a moment in history when government spending could be reduced." She stuck a finger in her mouth thoughtfully. "What does it mean to be in a downturn? What does it mean to have recovered fully? Consider that America ended its recession in 2009, yet four years later Krugman was still insistently demanding ever-greater spending -- so they were still in a downturn, right? There is no indication in his writings that America has ever been so financially sound that the government could spend less." She leaned forward. "We have to go back in history to find the answer, Jay. According to Keynes, it was unacceptable for a government to operate the economy so poorly that there were unemployed people. I think our answer lies there. When the unemployment rate reaches zero, government can cut spending." She considered that. "Not by a lot, of course."

Once Gelt even complained about the artificially low interest rates. Since intellectual argumentation had failed in every encounter so far, he tried to make a more personal plea, on behalf of a single identifiable person, to see if empathy might prevail where thoughtfulness could not. Gelt observed, "My aunt Nancy saved and scrimped all her life to have a retirement savings account that she could live on. You have made the interest rates so low, she is burning her savings just to eat. Yet Nancy is the most kind and conscientious person I have ever known. What did my aunt ever do to you to deserve this kind of cruel destruction of her economic security?"

Roberta was properly aghast. "Why did your aunt decide to save money in the first place? She should have depended on the government to take care of her in her later years. She should have spent all that money to grow the economy more quickly. I'm sorry, Jay, but she should have trusted us to protect her. That would have been the patriotic thing to do."

At which point Wes coughed gently. "Not that we're actually accusing your aunt of treason," he amended comfortingly.

"Not at this time," agreed Roberta. "After all, since interest rates are lower than inflation, eventually we will strip her of all the value of her savings anyway. But Orange Computer is another matter. They are sitting on a huge pile of cash." She tapped her jpad a few times and showed it to Gelt. "Krugman blogged about a computer company in America much like Orange. Those people are hoarding the profits they make from their monopolistic rents. If we forced them to reinvest it, it would make a big contribution to our economic recovery."

Now Gelt look puzzled -- a facial expression I had come to know well. He studied the blog post.¹¹ "Monopolistic rents? They have less than 50% market share with their jphones, and their j pads have competitors from every vendor with enough skill to socket a chip." He paused. "Calling them monopolists is such a bald-faced lie, this is out of character even for Krugman. Of course, he claims he is not making a judgement, but that has to be false too -- calling them a monopoly is too inflammatory to be an accident, the only purpose can be to propel politicians to pass some kind of frightful law." He shook his head. "How could even Krugman be so ridiculous as to accuse them of monopoly?" He paused, trying hard to figure out a different interpretation that was more generous to a fellow human being. "I suppose he could mean nothing more than that they are engaged in monopolistic competition, which is the economists' fancy term for a market in which vendors compete by differentiating features. But it would make no sense to make a blog for the layman depend on such obscure jargon."

Roberta leaned forward. "I'm sure he means it in the normal sense. They clearly have a monopoly. There is no other possible explanation for such high profits."

Gelt stared at them. "What about delivering a superior product at lower cost? Combined with a strong brand?"

Wes raised a pudgy finger. "There you have it! They have a monopoly on their brand! If we allowed other companies to use Orange's brand name, I bet we could pop that monopolistic bubble!"

Both Roberta and Gelt stared at Wes with amazement, jaws dropping, though for very different reasons.

Roberta found her voice first. "You are on to something there, Wes."

They discussed the idea of legalizing counterfeit brands for an excited half hour before calling the Congressional leadership. But it turned out that a number of the biggest financial backers of the Democratic party were quite fond of their own brands, and in the end, the idea came to

¹¹ "Profits Without Production", http://www.nytimes.com/2013/06/21/opinion/krugman-profits-without-production.html?_r=0&gwh=22B0D3F50EC3406240FC8219DB307184&gwt=pay

nothing. Roberta said sadly, "We must always remember that all the most important long term decisions are made by people with short term attention spans." A sentiment with which, oddly enough, Gelt agreed.

But they couldn't get the idea out of their heads that they should consume Orange's cash reserves. They started considering the possibility of requiring all corporate cash be re-invested in job-creating opportunities immediately.

Gelt cleared his throat. "You realize, currently the cash they are 'hoarding' is invested in your Treasury bills, which lowers the cost of your borrowing, so you can spend more. Are you sure you want to do this?"

Wes seemed willing to consider this line of reasoning, but Roberta shook her head. "Nice try, Jay. But the really big Treasury bond investors are from foreign countries. Remember that spending is the driving force of the economy, not savings. Orange Computer's cash must be burned as quickly as possible."

"But," Gelt tried one last time, "What if there is a double dip? Without reserves, Orange could easily go under, leaving thousands of people jobless."

Roberta shrugged. "Why, we'd bail them out, of course."

Wes shook his head. "Uh, Roberta, we really couldn't do that." Roberta looked at him in puzzlement. "They have no strong unions in Orange. We get so much flak for bailing out the companies we have to bail out for our political allies, I don't think we could really go out on a limb for a computer company."

Roberta frowned. "Regardless, that money must be spent. People like Orange really have to learn to trust us to run the economy so they don't need that kind of backstop."

Gelt nodded. "Because you have done such a great job in the past," he added.

"As Krugman explains, only when Democrats are in power, naturally," Wes finished with a smile.

Later that afternoon the Immediate Reinvestment Act was passed. Holding cash for later investment was forbidden; it had to be spent immediately.

The results were dramatic. Orange, which had been hoarding the cash both as a backstop and because they were crafting an R&D plan and did not want to prematurely invest in the wrong thing, had to throw out their planning and jump into an orgy of spending. They threw a big block of cash into the Edison car company that had recently IPO'd. Fully electric, Edison's vehicles cost three times as much as other cars, traveled two thirds the distance, and spent hours recharging when their energy ran low. Quite by coincidence, shortly after Orange's investment, Edison announced that they were on track to reach 0.001% market share. The stock went

crazy. Roberta laughed gleefully. "Forget human action, Jay," she exclaimed, "This is what animal spirits are all about."

Edison was sold some years later for pennies on the dollar to General Manufacturers, but this was too late to help Orange. Orange had sold near Edison's peak, and found they had an even more problematic pile of cash that they had to reinvest immediately. Desperate to escape jail, or worse, a lengthy Congressional hearing, they poured the money into a solar power company that had received vetting and massive state financing by the finest venture capitalists to be found among the wise bureaucrats of government who had never made a venture investment in their lives. Since Keynes had observed that, eventually, investment would be directly organized by the State, because the State is in a position to calculate the marginal efficiency of capital goods on long views and on the basis of the general social advantage¹², there could be no finer indicator of effective deployment of capital than government support. The CEO of Orange, himself a strong believer in government action, was sure they would reap an even bigger profit from solar than they had received from Edison.

But instead of finding profits, here Orange found salvation. Solar companies with fewer friends in government, not so richly endowed with government funding, mysteriously produced higher efficiency cells at lower cost. The solar company soon declared bankruptcy. All the jobs generated by the company throughout its supply chain disappeared. Still, that was ok: while those jobs had lasted, they had been good jobs. And when the jobs terminated, it produced new opportunities for employment counselors and retraining facilities. No solar power had been produced, but econometric analysis proved that every dollar invested in the company had produced more than a dollar in economic activity. Roberta twitted proudly, "Let me say it again. You can always make up for spending badly by spending more."

When the next cyclic fall in the economy occurred, Orange had no backstop and no exciting new products to keep ahead of competitors. The company died quietly as their profits -- monopolistic or not -- came to an end. But that occurred after Wes had left office, which is to say, it happened so far in the future that there was no possible connection between Wes's policies and Orange's fate. And besides, that was merely the long run.

Prosperity in the USA continued to swell. But still Wes and Roberta fretted. While just about everyone had jobs, there were still great disparities in income. The manufacturers of hockey sticks and baseball bats were reaping windfall profits from which neither their employees nor their customers benefitted. Only the pension funds who invested in the companies, upon whom millions of retirees depended for their income, gained anything. And though the relationship of the pension fund investments to the future welfare of the people was crucial, it was indirect, and did not show up in Roberta's statistics. Therefore it did not exist, and something had to be done to take those profits for the direct, immediate benefit of others. Fortunately Roberta had the

¹² The General Theory, Chapter 12, Keynes.

ideas, and Wes had the tools.

Roberta started her pitch. "The Center for Economic and Policy Research has proven that increasing the minimum wage has no impact on employment."

Gelt looked up at the ceiling. "Really. Did they explain how they were able to violate the Law of Supply and Demand? Because even a high school student taking economics understands that if you raise the price of a good, it lowers demand."

Roberta just shook her head. "Laws of economics are flexible, Jay. It's not like these are laws of physics."

"Actually, it is and they are. No one would throw out the speed of light law just because a bunch of statistical studies of a complex society suggested you could go faster if the societal forces were complicated enough so that cause and effect could not be clearly established."

Wes interrupted. "Why would you want to study the speed of light like that anyway? It's not important enough to the welfare of the people."

Gelt looked at him hard. "Exactly. For the speed of light, since no one cares what the truth is, the truth can be sought without bias." He sighed. "But an insightful mind can always produce a compelling rationalization when driven by a generous heart. Even laws of nature can be cast aside if the need to believe is strong enough."

Wes objected. "But these studies were done by scientists, Gelt."

Gelt lowered his head. "But they are human beings first. Which is why real science proceeds so slowly. Only with a hundred years or even more of distance can one discern where the human being's rationalization of what he wants to believe leaves off, and truth begins. More basically, if the statistics yield results that violate the laws, you have to believe the laws, not the statistics."

Roberta disregarded this. "Anyway, I think we should double the minimum wage."

Gelt jerked as if zapped by lightning. "Even the CEPR said the increase in minimum wage must be modest, Roberta."

She crossed her legs, smoothing her tight silk skirt with her hand. "But what does 'modest' really mean, Jay? I mean, they never found an upper limit on the size of the increase that could be supported without increasing unemployment, did they? There is no suggestion in any of the research they studied that there are limits to our ability to raise wages as much as we want."

Gelt clenched his fist. "And the Law of Supply and Demand?" he demanded.

Roberta just waved her hand. "The CEPR has fine explanations for why we can violate your silly

law, Jay."¹³ She held up the report, with a part of the conclusions circled. "There are a bunch of strategies used by companies to get by without lowering employment. They can raise prices, for example."

Gelt took a calming breath. "If the prices go up, doesn't that eat up the value of the raised wages? And doesn't it make life even harder for the people who don't have jobs?"

Roberta glared; continuing the analysis past the intended result to look at secondary effects and unintended consequences made it so difficult to understand systems that you could no longer command and control them. "But that isn't the main way employers deal with a rising minimum wage. As the CEPR explained, the employers actually benefit from being forced to pay higher wages. You see, when you make the minimum wage higher, employees are less likely to leave the company, which reduces hiring and training costs."

Gelt was incredulous. "So, you're telling me that the employers are so stupid that they don't even notice that the higher-paid employees don't leave, reducing costs and enhancing profits? They can't make the connection and raise wages on their own to achieve that effect in the specific cases wherein it actually works that way? I thought those employers were too cunning to miss an opportunity like that."

Roberta chuckled. "The people at the CEPR have much better insight into how companies should be run than the people on the ground running them. They are scientists, after all."

Gelt mumbled. "It intrigues me how absolutely you believe that corporate executives are shrewd greed machines, right up to the moment when we discuss a matter for which it would be inconvenient for your argument, and in that moment they suddenly turn into morons. You didn't hear a word I said when I described the Fatal Conceit earlier, did you?"

Roberta tried again. "Krugman himself says that lowering the minimum wage would just reduce aggregate demand and cause a worse contraction." She shuffled through the pages of the blog, and showed it to Gelt. "See?"

¹³ "Why Does the Minimum Wage Have No Discernible Effect on Employment?", <http://www.cepr.net/documents/publications/min-wage-2013-02.pdf> Their conclusions are fascinating because they list 10 ways employers can compensate for a higher minimum wage other than laying off employees. This list is a beautiful microcosm of all the hopes and dreams of the seekers of simplistic solutions to nuanced problems. The 10 alternatives all fall into one of several traps: 1) they cause as much harm as layoffs, 2) they cause *even more* harm than layoffs, 3) they are things which those cunningly greedy business owners would have already done to maximize their profits (perhaps better described as "maximize their chances of survival", since many businesses have razor-thin profits), or 4) they violate all common sense. But the list can be used to explain why statistics have so much trouble identifying the reduction in employment from minimum wage hikes: the harm of the hike is distributed among all the different damaging ways of compensating for it, so that attempting to measure the effect of the hike on any single one of them, amidst the immense noise of economic statistics, is beyond the state of the art of mathematical analysis. The Law of Supply and Demand is not violated; its consequences are merely distributed in a way the hopeful mind can choose to ignore them.

Gelt perused the writeup for a moment. "He is assuming that the main effect of lowering the minimum wage would be that everyone making the minimum wage would instantly have their salaries reduced to the newly lowered limit."

Roberta nodded vigorously. "Well, like, of course."

Gelt frowned again. "Well, like, nonsense, Roberta. Most of the people making the current minimum wage are actually earning that much money, or they wouldn't have the job in the first place." His eyes gleamed. "Besides, wages are sticky, aren't they, Roberta? Or are they only sticky when convenient for your argument?"¹⁴ He pondered a moment. "The real difference lowering the minimum wage would make is that, jobs that once cost too much to do at all would suddenly be possible again. Like touching up the paint on the sign outside the restaurant. Or repairing the sink in the second bathroom. There would be more jobs in total, because there would be more tasks worth doing. Law of Supply and Demand in action. Shucks, entirely new kinds of jobs might be invented, jobs that might later grow industries that employed higher-wage workers." He chuckled. "You know, I've looked at a lot of these statistical studies on minimum wage and employment. I think the funniest ones are the ones that say we don't have a problem with the minimum wage, we have a problem with not enough jobs. Exactly."

Gelt shrugged again. "Of course, those jobs that have value less than the minimum may still be getting done. On the informal economy, of course. So they can't be measured for your econometrics, and we cannot tell whether they are done or not."

Wes asked, "The informal economy? What's that?"

Roberta hissed. "That's what happens when people bypass government assistance and simply voluntarily engage in person-to-person trade. Workers are paid in cash. No income taxes, no social security taxes, no medicare taxes, no unemployment benefits taxes, no state taxes, no health insurance penalties, no OSHA regulations, no equal opportunity regulations, no disability regulations, no government certifications of employees or government-issued licenses of employers, no forms to fill out for my metrics, and no lawyers to help the employer sort through all the taxes and regulations and licenses. It is barbaric." She glared at Gelt like it was his fault.

Gelt looked bemused. "I didn't create the informal economy, Roberta. You did." His tone was

¹⁴ "Would Cutting the Minimum Wage Increase Employment?", <http://krugman.blogs.nytimes.com/2009/12/16/would-cutting-the-minimum-wage-raise-employment/?qwh=404B2EFBDA6F409DBD6B9D45876FDAC&gwt=pay>. This is perhaps the most blatant example of Dr. Krugman allowing his desire for simple government-imposed solutions to crush the great power of his reasoning intellect. Only because wages and prices are sticky did Keynes conclude that government must manipulate aggregate demand. If wages and prices were not sticky, they could simply fall, demand would remain reasonable, and government intervention would not be necessary. In abandoning stickiness to praise minimum wage laws, Dr. Krugman abandons his own deepest economic tenets. To be fair, Dr. Krugman knew better in 1998 when he wrote "So what are the effects of increasing minimum wages? Any Econ 101 student can tell you the answer: The higher wage reduces the quantity of labor demanded, and hence leads to unemployment." <http://www.thefreelibrary.com/Living+Wage:+What+It+Is+and+Why+We+Need+It.-a021103427>

gentle. "You are the one who made it so difficult for people to work together that they had to do it in secret. You did this." Gentle his voice may have been, but there was an odd edge to it. His words and his tone rolled over me, and I wonder to this day if this was the first and only time I ever saw Gelt angry. It was as if he cared every bit as passionately about the plight of the underprivileged as Roberta, certainly far more than Wes, but would not accept any plan for government action that was not rooted in laws of economics as solid as the laws of physics that guide the pouring of a thousand tons of molten iron to make steel. It was as if above all things he were afraid of government regulations that would, in their heartfelt yet misguided compassion, actually harm the fragile web of economic activity, because government regulations, once passed, are far stickier than any wage or even any price, no matter how terrible their consequences may be. It was as if he had a towering compassion, ferocious in its size and scope, but nonetheless bound by a deep humility in the face of such delicate complexity.

Then Wes clinked his snifter on the table for attention, and I snapped back to reality.

Wes was not to be turned aside from the main opportunity by economic theorizing. "So, if there are no limits to how much we can raise the minimum wage, instead of just doubling it, why not give it a real boost? Make it \$50 an hour or so?"

A crack spread across Gelt's face, something that had not happened for a while. "Or better, why not boost the minimum wage on up to \$500 an hour? Given a week of vacation, that would mean everyone was making a million dollars a year."

His suggestion was met with a moment of stunned silence. Finally Roberta exclaimed, "Extraordinary."

Wes chimed in. "Just marvelous. We can put 100% of the people in the top 1% of income."

Roberta continued. "Allowing wealth to totally dispossess poverty."

Wes finished. "And it would really drive up our tax revenues, too."

Gelt sagged in his chair as he realized that, once again, they had failed to recognize that he was joking.

Wes stood up and moved to the center of the room. He seemed to be having a little trouble breathing. "Still," he said agitatedly, "What if ... what if ... it doesn't work out quite right?"

Roberta floated to her feet with her dancer's grace, glided over, and hugged him. "Relax, Wes. Remember, we're all Democrats now. Nothing can go wrong."

The Millionaire's Minimum Wage Law was celebrated with street parties that lasted for days after it was enacted. People who had lived on the edge of financial ruin rushed to buy yachts

and personal jets and private golf courses, backed by loans from banks that knew that even a cashier at Big Mike's could easily repay.

As Gelt had predicted, no company offered any jobs any more. But that was ok, because Roberta had been right as well: labor turnover fell to zero, since no one ever left any job either. With no need to pay hiring or training costs, and with customers buying everything they could produce as fast as they could get it out the door, profits soared.

When the New Work Times asked Gelt about the Millionaire's Miracle, he muttered. "They lose money on every sale due to labor costs. But they are making it up in volume." His opinion was never published.

*** *Epilogue* ***

Eighteen months later, the New Work Times announced that every last citizen in the society had finally become part of the top one percent. It was as they had predicted all along, if only everyone would listen to Krugman.

Gelt left the next day and was never seen again in the capitol.

Roberta and Wes announced their wedding plans. It was a match made in heaven: only a politician of Wes's advanced level of irresponsibility and perfect lack of moral compass, combined with Roberta's keen perception of Krugmanomics, could have driven the economic system to its triumphant conclusion.

Roberta's skin never aged or wrinkled.

To honor the man who had truly made them wealthy, a grateful nation renamed itself KrugmanLand.

Prosperity continued.

Gelt did make the headlines of the New Work Times a few months later. It turned out his hobby had been developing a new kind of power plant that was small, portable, safe, clean, and limitless. But comparing the profits he could get from electricity versus the profits he could get from breaking windows, pricing signals told him that he could make more money, and therefore benefit more people more greatly, by moving into the smashing industry. So he redirected his efforts and developed an integrated glass-breaking-making machine that could break a window and then repair it in less than a minute. He partnered with farmer Jack Producer, the last holdout still growing food, and razed the last wheat field to put up condominiums with regulation-conformant glass windows. Every window was outfitted with its own breaker/maker. No one lived in these condos -- the noise of the constant window breaking was severe in the early models -- but the condos were nonetheless tremendous cash cows. The econometrics showed an extraordinary leap in national productivity with the introduction of the new machines, the kind

of improvement that could support a really significant increase in government spending since investors worldwide could see that future levels of productivity would support it, and so drove down interest rates to even deeper record lows.

But, some may mutter, after Jack Producer destroyed the last wheat fields, where did the food come from to feed all these wealthy citizens?

Tsk, tsk, gentle reader. You seem to have not paid attention. This story took place in Krugmanland.

And everyone lived happily ever after.