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Paul Krugman

**Summary**

Paul Krugman is a Nobel laureate who got this recognition in 2008 for his valuable work in identifying patterns of international trade and contributing to economic geography (Panagiriya). He is working as a Professor of International Affairs and Economics at Princeton University. Besides this, Krugman has also taught Economics at the London School of Economics. Among his most notable occupations, he is engaged in writing extensively. He has written or edited twenty-three books, more than two hundred journal articles, and also has been writing consistently columns for various newspapers. He has been employed with the New York Times for a long time and his articles are published in the newspaper every three to four days.

Paul Krugman completed his B.A. in the field of economics in 1974 from Yale University. Later, he headed to the MIT (Massachusetts Institute of Technology) from where he finished his Ph.D. in 1977 (Krugman). He has been working as a research associate since 1979 at the National Bureau of Economic Research. His other affiliation is with the Institute of International Economics as a member of the board of advisors. He has associations also with the American Academy of Arts and Science, the Econometric Society, and the Group of Thirty. All these affiliations make him a worthy professional in his field (*Paul Krugman | Princeton Magazine*).

A year after getting his Ph.D. degree, Krugman published his major research on economies of scale and international trade. Krugman studied the determinants of trade as well as the production locations in depth in the context of a globalized economy (Gaspar). He did this by integrating the economies of scale into models of general equilibrium. Through his research, he explained the way the consumers’ desires for choice and variety make the countries capable to reach economies of scale. These economies of scale are important to conduct profitable trade in products of similar types. This research later developed into his potential works, which laid foundations of the field of new economic geography.

The research areas that make him stand apart from his contemporaries include economic geography and international economics, having a specialty in international finance and trade. Being ranked as the world’s one of the most influential economists, he has proved himself to be an exceptional writer with a keen insight into political affairs. In recognition of his work on the new trade theory, he was awarded the John Bates Clark by the AEA (American Economic Association) in 1991.

Trade patterns have been explained by theories of comparative advantage and factor endowments. In earlier times, these theories were useful in explaining the patterns of international trade. However, in the new era, with the change of business trends and economic conditions, the above-said theories have become less relevant. Krugman studied the issue and wrote two articles in 1979 and 1980 to explain the facts and figures involved. He described that the competitive advantage was not the determining factor in international trade patterns (Fujita and Thisse). Many countries imported and exported the same goods, while the countries engaged in dissimilar funding were more actively engaged in the trade that those engaged in similar financing of capital and labor. Krugman made use of the framework of monopolistic competition. Each company in this kind of framework sells differentiated goods. Since the present day’s consumers prefer variety over uniformity, people living in a country sometimes like to buy things made in some other country. Such a framework provides better criteria to understand the latest international trade patterns. Krugman's models of trade patterns became widely accepted by the professionals because they provide a more realistic way to deal with related issues and are based firmly on efficient mathematical modeling. The combination of tractability, elegance, and realism in Krugman’s models supports several papers written on economic geography, political economy, economic growth, and trade (Krugman). One of the most acclaimed papers written by Krugman was “Increasing Returns and Economic Geography” published in 1991. It was cited more than nine hundred times in other scholarly articles and standard papers. A fine mathematical treatment supported the framework presented in this paper for discussing trade and business location at the same time (Krugman).

Because Krugman regularly writes columns in the New York Times, he writes on many issues, political as well as economical. He guides the organizations as well as government institutions concerning their policies and strategies. He carried out unbiased criticism on the government policies regarding taxation during the governance of President Bush. He was strictly against the tax cuts enacted by the government. His main argument in this regard was that the tax cuts give rise to budget deficits in the country. No improvement in the economy comes as a result of such policies. Besides, these decisions can worsen income inequality in the country. Instead, Krugman proposed that government spending should be increased. Further, taxes ought to be lowered, unemployment benefits should be provided to people, and the military should be made stronger. The government’s spending on such issues will improve the economy in the long run, whereas the tax deficits occurred would only be temporary.

Krugman adheres to Keynesian economics. He also employed the new Keynesian theory in his research, however, he criticizes it also, saying that it does not allow to predict efficiently. He identifies himself to be a liberal, and he explains it the way to relate it to the term, social dramatic. Krugman advocates free markets even where they have controversial views. He is always in favor of a market’s natural supply and demand process. He is strictly against unemployment, to the extent that he approves sweatshops over unemployment. He argues against tax breaks, subsidies, and mandates. He was the one who questioned the need for NASA and reasonability of its perilous, costly space ventures in comparison with the benefits they yield.

Krugman’s influence spreads across the field of finance (international). He wrote a paper discussing the currency crisis that showed that exchange rate regimes tend to end in speculative attacks. His paper is one of the most important contributions to the currency crisis models of the first generation. Krugman emphasized using aggressive fiscal policy and an unconventional monetary policy. He argued that the Keynesian liquidity trap had struck Japan. His discussions on the issue gained importance in the circle of professionals and are still being debated over. He proposed a policy to address the liquidity trap of Japan, which entailed inflation targeting. He argues that the policy is close to the objective of modern stabilization, by providing adequate demand without distorting the allocation of the resources. His views on the economic growth that occurred in East Asia were also not encouraging. He held the opinion that these countries have shown growth and development that is the result of mobilizing resources and the rate of growth will decrease slowly. Krugman has extensively criticized President Trump and the way his administration works. He has made criticisms on President’s proposals for climate change. He disagrees with certain points in the President’s economic policy. He further disagrees with most of the tax plan and foreign policy.

An important article Krugman wrote was “Ricardo’s Difficult Idea”. David Ricardo explained the details of free trade a long time ago, which Krugman thinks are essential to know by intellectuals of the present day, whether they are economists or non-economists. Krugman explains Ricardo's idea that developed countries produce goods by creating a comparative advantage. The low-wage countries cannot pose any threat in this regard to the developed countries. The products made in low-wage countries cannot substitute goods manufactured in high-wage countries. Krugman, in his paper, emphasizes the need for having an understanding of such concepts by the intellectuals of today, either economists or non-economists.

Another important identification made by Krugman is that the people are concerned with their relative incomes concerning one another. They are not concerned with the living standards that much. He gave evidence by quoting facts and numbers in his article, “The CPI and the Rat Race”, exclaiming that the material standard of living of most of the families in 11950s was not better as compared to that of the poor people of 1990s. He elaborated that even the poor people were doing good in the 1990s relative to their older generations.

Krugman indicated that labor markets heavily regulated by government interventions are not in a condition to create new jobs, even the low-wage positions for work, which can provide support to the unemployed. Labor markets in Europe mostly are facing this challenge. Krugman encouraged the low-wage job offers available in the US labor market as compared to that in Europe. This clarifies Krugman’s opinion about unemployment. He further adds that the youth needs a passage or entrance to the practical world. If they manage to somehow enter the world of work, they can also be successful in finding better jobs for themselves in the future. Remaining idle is worse than engaging with low-salary jobs.

**Personal Analysis**

Paul Krugman has proved himself to be creative, innovative, and brilliant in academia as well as professional level. He wrote valuable pieces of work at the very early stage of his career. His works have been cited frequently in standard articles and papers. The major influence of his efforts is in the development of new trade theory and new economic geography. It is these two areas of research for which he succeeded in winning the Nobel Prize. Some of his contemporaries were surprised by his selection to be awarded the Nobel Prize. Others were surprised by his single nomination for the prize. Nevertheless, many found it quite fair as they considered Krugman deserving to get the prize. Since Krugman is actively working as a journalist as well, he has developed a dual image of his professionalism. At the same time, he has acquired many fans as well as enemies due to his outspoken writings. People and evaluation boards simultaneously regard him as one of the most influential economists of all time.

It seems from the efforts Krugman makes by writing extensively that economics is not well understood by most of the intellectuals of today as its concepts should have to be understood by them. Krugman has mentioned the need for creating awareness as well in this regard in some of his writings. He keeps on elaborating on economic and political facts through his articles and columns. His sincerity with his field of study and profession is evident in all his efforts. He has sound opinions regarding the policies and strategies being pursued by the government related to economy and trade. His contemporaries can be divided into two types: those who admire him, and those who disagree with him. Some argue that his image as an economist has been shadowed by his journalist’s image due to writing assiduously political columns. His indulgence in writing political columns suggests that he has a broad view of the field of economics that urge him to discuss out-of-the-scope things in his writings.

Krugman explains the new trade theory as a fresh treatment of the subject, which has not been made with such detail and support of mathematical models previously. The traditional trade theory provided only the comparative advantage as the basis for international trade. Krugman added new dimensions to the theory by arguing that countries with similar production resources and comparative advantages carry out import and export of goods with each other. This fact indicates that certain other factors also exist that determine the cause of international trade involvement in different countries. He states that people’s desire for variety is one of the main reasons countries pursue international trade. Krugman’s trade theory incorporates the concepts of economies of scale into the trade theory. In his theory of economic geography, Krugman explains that labor and capital can move to other countries for production purposes, however, many businesses do not pursue this type of transfer of production resources (Fujita and Krugman). Krugman refers to the concentrated production areas in the US where millions of people gather in geographically small areas to find jobs and become part of the production processes. He says companies targeting particular niches with their products prefer to confine their production units to a few numbers in a few locations. He mentions centripetal and centrifugal forces in markets that shape the trends of businesses. Centrifugal forces push the businesses beyond the borders and result in an expansion of businesses internationally, whereas the centripetal forces pull the main processes of a business to be confined within the national boundaries, limiting the number of factories as well as the locations (Fujita et al.). Krugman released two versions of each of the two theories mentioned above: one version supported by mathematical models and the other version kept written plainly to make it easier for readers (non-economist intellectuals) to understand the concepts.

Krugman does not approve of unemployment at all. He agrees to the option that the unemployed people should engage in low-wage jobs rather than wasting their time as being unemployed. He even approves the existence of sweatshops in markets when unemployment is prevailing and reduces opportunities for newcomers to get high-wage positions. Another major concern he is fighting for is income inequality in the country. He gives explanations of factors causing this inequality and brings forth the possible solutions.

Krugman does not admire much the economic growth that has occurred in East Asian countries in recent decades. He argues that the economic growth in these countries is not based on the economic models that could ensure consistent success in the future. He states that the economic success of these countries is due to the investments made by investors and changes in trends of business environments. He argued that the sustained future success of these economies depends on the total factor productivity that is the ratio of aggregated outputs and aggregated inputs.

Krugman's criticism of the government's policies and strategies is ruthless. He does not approve any initiative that causes social side effects like unemployment, income inequality, etc. He has written several articles commenting on the current government and holds different opinions as the government has in affairs related to the state. He criticized Bush’s plan for tax cuts arguing that it would cause income inequality with no improvement in the overall economy. He criticized Obama’s stimulus plan and banking rescue plan. He said that the policy would support only the large financial institutions and bankers to help them solve their problems and ignoring the cumulative benefit of the country’s economy on the whole. He also opposed China's exchange rate policy narrating that it would slow the recovery of the economy since the recession of 2008 and emphasized to levy surcharge on imports from China to the US.

A consistent growth in Paul Krugman’s career can be noticed throughout. Beginning as an academic genius, he started writing valuable pieces of research on different areas of his expertise. He kept on writing quality research as well as eye-opener articles continuously. He won numerous awards of the highest recognition of a professional's achievements. He is carrying out a multi-dimensional career comprising teaching, writing, consulting, and mentoring. His political views are liberal, enabling him to give his opinions freely and confidently. He supported Hillary Clinton, the Democratic candidate, for the presidential election of 2016. He critically evaluated the usefulness of NASA in bringing benefits to the country without having a significant impact on the economy due to extraordinarily huge costs.

Paul Krugman is the most liked as well as the most disliked journalist in the country. His elaborative work on explaining various concepts of economics to non-economist intellectuals and commoners has been admired by numerous experts. The New York Times offered him to join their office for writing “opposite to the editorial” column and be the face of the newspaper. Krugman has made many enemies as well due to his clear descriptions of political and economic problems. Krugman’s wife, Robin Wells, is also a scientist who holds a Ph.D. degree from the University of California, Berkeley (Princeton Weekly Bulletin). Krugman has co-authored many books with her wife.

Krugman has observed the conditions of economies intensively and presented his findings in a well-developed prose. For instance, he compared the living standards of people belonging to two distantly apart decades, the fifties and the nineties. He derived a surprising conclusion from the comparison that the living conditions and standards of wealthy people of the 1950s are not better than those of the poor people of the 1990s. He concluded that people refer to the quality and standard of living through the comparison of their mutual incomes. His conclusion of the study almost redefined the attitude of intellectuals towards the standard of life.

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