



Prof. Paul Krugman

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Professor Paul Krugman, Princeton University and author of the *Great Unraveling* gave a talk to ippr and external friends concerning aspects of America's current economic and foreign policy.

I suspect that the discussion will be more interesting than the talk, so let me talk quite briefly. As you probably know, most of my life I did international economics and spent most of my time worrying about difficulties and problems in Third World countries and international issues, and tended to do a lot of that for the *New York Times*.

The thing to say, and this may come as a shock to you all, but I don't like the current administration in the US or the direction it's taking us. A little bit stronger than that, I've been pretty forceful about it, I couldn't resist. I hold up what Gerard Baker said in the *FT* about my recent book, that I take my case into an emotive and rather solitary territory. 'The Bush team's manipulation of economic policy is not just cynical populism but is of a piece', he says, 'with the cynical manipulation of national security policy. A hard-right cabal has taken over the reins of the US government.' and he goes on to say that most reasonable observers might think this goes too far; how could I possibly think they were cynical about foreign policy as well as domestic? That was written in November. It's actually amazing how much, really only in the last two months, that the realities, what I thought were the realities pretty obviously a couple of years ago, are beginning to sink in much more widely.

Anyway, let me say that we do have a very radical government in the States right now and it's primarily about domestic policy. I think you actually have to say that there were reasons why it turned into this adventurous foreign policy but that was not the core of where they thought they were going. But it is a very radical government and it's interesting to find myself now cast as a left-winger on the US political spectrum – as a radical – which, if you look at what I've actually written about policy, before or now, I'm a raging moderate with a slight interest in a stronger social insurance system but nothing that you

would have considered radical in any given time. But that's the way that American politics is being cast these days.

At some point you are going to be asking 'what did you know about this administration and when did you know it?' In my case the revelatory moment was during the 2000 campaign, when the then-candidate Bush came out with his proposal for social security reform, which hasn't happened but is still floating out there. Apparently Bush had promised some of the right-wing think tanks that social security privatisation was going back on the agenda this spring, and then a few photographs got in the way. The proposal was to convert part of the social security into a system of individual accounts, which is a proposal you can go back and forth about. I think it's a bad idea and I can give a bunch of reasons why. It is an arguable question whether one ought to have individual retirement accounts. However, if you know anything at all about how the US Social Security system works, you know that the immediate obstacle to that is not a question about the long-run desirability, but about the financing. Social security is basically a pay-as-you-go system. Current workers pay payroll tax to current retirees. If you want to say to current workers to put the money into individual accounts, you have to ask who then pays the benefits to current retirees? So there's a hole you have to fill, and so when Bush said 'I want people to be able to put 1/6 of their contributions into private accounts' the next question was 'and?' We never got an answer.

This was supposed to solve the system's problems, but in fact it worsens the system's finances. That told me way back, in fact it was four years ago, that there was something wrong here. First of all it appeared to be a deeply irresponsibly proposal, second that there was just a degree of dishonesty that I don't think you can find in US politics in the

past. Reagan had tax cuts that weren't funded but there is a theory – supply side economics – under which they made sense (you could say that's a silly theory, but there was at least a theory). Bush, with social security, and then later with many other things, was simply saying that two minus one equals four and of course the other remarkable thing was that he got away with it, which is something also new in American politics. I sort of followed that track ever since.

The same combination of dishonesty and irresponsibility runs through all the economic proposals, all of the tax cut proposals. The level of cooking the books that goes on in each of the major policy proposals, I think, has got no precedent in US history. If you are into these things, each tax cut proposal has come with a supposed 10-year price tag, which is held down through gimmicks, above all the use of 'sunsets'. So, you have a tax cut that expires when everybody knows full well, that the moment the basic thing is past, the advocates will come around and say 'that's ridiculous to make this thing expire we should make it permanent'. So the 2003 tax cut had a \$350 billion headline price tag, when in fact, without the sunsets it was \$800 billion to a trillion. My favourite still, I use it every time. The original 2001 tax cut which has as the final thing that happens the phase out of the Estate Tax. So by the year 2010 there is no tax on inheritance in the United States. Then the entire tax cut as written, in order to hold down the headline number, expires in 2011, so all tax cuts will revert to their 2000 levels in 2011. This means on a large estate, you pay no tax if you die in December 2010, and 55% tax if you die in 2011, which creates some interesting incentives!

There's a lot of Orwellian stuff in the selling of domestic policy in general. The "Healthy Forest" is a plan to cut down a lot more trees and so on. More to the point, if you look at

environmental and land use policy, what you find is that the wording always implies they are doing something nice for the environment and good. They all involve substantial scuppering of regulations and there are large give-aways to specific industry groups. Which is not surprising because if you look at the appointments all up and down the line, for example the former extractive industry executives and lobbyists are now filling the key positions in the agencies that regulate those industries. It's a pretty remarkable picture.

Foreign policy has also been radical and also, as we know, incompetent beyond belief. It just fits the general pattern. I was a sceptic about the case for war, without having any expertise in the subject. What do I know about WMD? But during the poll of 2002, I said to myself that the selling of this feels exactly like the selling of the tax cuts. Constantly shifting justifications, negative evidence that appears and then suddenly disappears, one thing after another and I just didn't believe these people and thought they are doing it all again, which turned out to be right.

How is this happening? Just a brief statement on political economy, go back to just the straight economic policies, if you look at them they are (I am quoting myself again) "doohnibor": that's Robin Hood in reverse. You have a set of tax cuts, which are completely unfunded, there's no explanation of how we can afford these tax cuts. Of course we all believe (at least, I believe) in cyclical policy. A temporary set of tax cuts and spending increases, in the face of a depressed economy makes sense, but these are all intended to be permanent tax cuts and yet we have a large structural deficit in the United States. These are tax cuts that enlarge a structural deficit. Something has to give eventually. No explanation of where that is going to come from, but on any plausible model of how the budget is eventually brought under control, whether it is through

increases in other taxes or cuts in social security programmes, which is where the money is. The tax cut plus spending cut package ends up leaving a large majority of the population worse off and a small minority of the population a lot better off.

I got an email from the Centre on Budget & Policy Priorities in Washington, which is the go-to place for US budget information, confirming my rough figure that 80 per cent of the population is going to lose from this package. We are really talking about a package that takes away from 80 per cent of the population and re-distributes to the top 20 per cent. If you really look at where the bulk of it goes, it goes to the top 2 per cent and the really big gainers are the top 0.13 per cent, those who earn \$1 million or more. It's a pretty remarkable set of policies.

How does this happen? Well, this is where you have to understand that there is a movement, a radical organisation. I'm not talking crazy conspiracy theories but there is a network of think tanks, their supporters in the administration and Congress, and the publications that hype their ideas and so on.

When Hilary Clinton talked about the vast right-wing conspiracy, it may have been a poor choice of words but you can really trace all of this stuff. It really is a few dozen organisations, which ultimately are financed by about nine major family foundations. There is an economic right that is committed to a quite radical programme of cutting taxes.

Cutting taxes to make the overall tax system less progressive or maybe not progressive at all, to shift the burden of taxation as close to entirely off capital as possible, so that really only waged income is taxed and to use all of that to force a drastic cut in the welfare state, which in the US is a fraction of what it is in any other advanced country.

It's hard to understand how there can be so much influence on policy aside from just the power of money and organisation and ideology. There's also an alliance with the cultural right, so you can't really make sense of what's going on without appreciating the important role of the Christian right in all of this. All that said, if you ask the public what their preferences are on economic policy, for what it's worth polls suggest that this is not a particularly popular programme – in fact quite a lot of this is unpopular – but the right has had enormous success at cloaking its intentions and at selling its programmes on different grounds and it has also had a huge boost in the use of foreign policy as a tool for political influence.

The 2001 tax cut passed before the terrorist attacks, and that had to do with misleadingly optimistic budget projections plus a major assist from Alan Greenspan who just abruptly threw aside his cloak of being a-political. In the fall of 2001 as the budget realities hit, that would have been an end to it, except for 9/11. Then after 9/11 you had a change of subject and in the brief interval between 'operation flight suit', the carrier landing, and the realisation of how things were actually going in Iraq, the second big tax cut was pushed through. So that's where we are.

Now as it turns out, it would be nice if public education and realisation of all this were going to lead to a great backlash. There may well be a great backlash in the 2004 election, but not for that reason. It looks as if the economy is probably neutral for the election, but if you believe the latest stuff it looks like a reasonable chance, in fact better than even chance that Bush will, in fact, be out. We talk about nightmare scenarios and there's a lot of talk among liberals and moderates about what it takes to have a fraud-

proof election. I would say it's better than even odds that we will have a Kerry Presidency and possible Democratic Senate there are pretty long odds against a Democratic House of Representatives, and that probably means also that we have two years of, pretty much, civil war in Washington.

I did promise to be forward-looking, so let me talk about where we go from here. Assume that somewhere down the road in the not too distant future there is a chance to really reconsider these policies. I guess the main thing to say is that on technical grounds the US should not have a serious problem. We have a structural deficit that is maybe 5 per cent of GDP if you take into account the demographics. That sounds like a lot, and it is about a quarter of federal spending, but on the other hand the US overall tax burden is way lower than that of other OECD countries. It's about 10 points below the non-US OECD average and it's about eight points below Canada now. That's all levels of government.

The US is much less taxed than all other advanced countries, and it certainly has the administrative ability to collect taxes. If we were ruled by wise and good people who were able to reach agreement on what has to be done, there's no problem, the US should easily be able to cope with all this. There is a longer issue about demographics which does get worse over time, but is not as bad as some people think. The demographics per se add something like 4 percentage points over the next 40 years to spending. There's a much bigger issue over healthcare, which is separate from the demographics.

The last thing is to say politically what could happen. Right now Kerry is talking about rolling back just the very top end of the Bush tax cuts, which has the virtue, politically, of

affecting only a tiny number of people. It's not nearly enough revenue. Maybe that rolls back something like a third of the revenue cost of the Bush tax cuts and the trouble is that we would be in structural deficit even without the Bush tax cuts. We are in much bigger structural deficit with them, we are talking about structural deficit of, if you include the demographic stuff, around five per cent of GDP, two per cent of that is the Bush tax cuts, so we still have a big problem. But if you roll back only a fraction of the Bush tax cuts it's very hard.

What you do have is the possibility of a broader roll back that still leaves only a small number of people hardly affected. It turns out that the way the Bush tax cuts were structured is that they were all fundamentally tax cuts for the 'filthy rich', with sweeteners thrown in to create a limited number of middle class families who get something. In the 2001 tax cut the lowest part of the income tax bracket – not all of it, part of it – is reduced to 10 per cent and there are increases in the child tax credit and there's a marriage adjustment. All of which gives a little bit to middle class families. Then there's a further enlargement in the child tax credit the 2003 tax cut, so all of these things are worth something to middle class families.

Without them the tax cuts hardly touch most people, which says that there is a fairly easy political strategy to roll back only the non-middle class parts of the tax cuts. This has almost no impact on the incomes of the bottom 80 per cent of the population and reclaims about 80 per cent of the lost revenue. The trouble of course is that it still leaves us fairly deeply in the hole, not as deep as before, but still fairly deep and then I don't think anybody really wants to talk about what comes next. But that's roughly where we stay.

Questions & Answers

Q: Why aren't the constraints biting in? The constraints I'm thinking of are: first, all the vast number of checks and balances in the US system, which we don't have here. It's theoretically easier to do this here. The second is the public: if Kerry wins it will be more about Iraq than tax cuts and the last is the financial markets, why aren't they reacting to the structural deficit?

A: The last one is the most puzzling, the first two I don't have a big problem with. Most of the public is not following closely and the trouble with national deficits is that they are abstract. It is much easier at a state and local level. It's not quite true that you have to run a balanced budget, but it always makes headlines when you do funny stuff to try and evade the budget constraint, and at a federal level – rightly from the point of view of economic policy - we don't enforce year by year balance, so then the question is why does it matter? You can try. We all keep on searching for metaphors to explain it to people – it's like somebody buying you a gift charged to your credit card and so on - but it's hard to make that case.

The checks and balances, well this just really kind of collapsed. I think you have to go back to my amateur conspiracy theory stuff to understand it. A lot of the people that you would have expected to raise objections were persuaded or coerced into not objecting. It's hard now to recapture, but the state of utter shock back in January 2001 when Alan Greenspan, who had spent the whole 1990s talking about the utter importance of fiscal probity, suddenly wrapped himself into a tortured argument about why a tax cut was a good idea. It turns out to be the worst argument ever made. It was that we needed to cut

taxes to prevent the US government from paying off its debt too fast! If you ask me why would he have done that? We could talk a lot, but just released this week, someone did a study and discovered that Greenspan visits the White House four times as often now as he did during the Clinton years.

Bear in mind also, the 2002 election, which was 'terror, terror, terror', but then it had the effect of giving one party control with a very disciplined party. You say 'Why don't the centrists stand up to stop this?' and the answer is 'what centrists?' You can quantify that. Look at the voting studies that were done by Howard Rosenthal and my Princeton colleague and his associates and there is no centre, it is just very disciplined. I have to give you another quote of the week. As things are going bad, the Speaker of the House Dennis Hastert was quoted as saying 'It's difficult to govern when you control all three branches of government' which was an interesting thing. All three? That means he's including the Judiciary. Now I say things like that, but I am surprised he would!

The financial markets are the big question. Why don't the financial market say 'hey, wait a second?' I think people – the investors – look at the numbers, which by themselves are not that bad. It's a huge deficit by the standards of an advanced country and all of that, but it is something that technically we have the easy ability to correct. The debt / GDP ratio is not that high and so if you believe we are going to have responsible management along the line, then you shouldn't be worried.

The reason why I think we are headed for a train wreck is because I look at the political situation and I ask 'well how do you think this responsible management is going to come about?' I think the financial markets are of the belief that either, after September the re-

elected Bush will reveal his true colours as a responsible fiscal manager, or the Democrats will come back and do what they did in the 1990s again.

One last thing I have to say on that, the discussion among basically Clintonite economists such as myself, is if you had it to do over again, knowing what you do now, was all that fiscal responsibility of the '90s such a good idea. All you did was pay off a bunch of debt and make it possible for Bush to blow it on tax cuts for the rich. Shouldn't you actually blow the budget yourself on things that really matter?

Q: What about off-shoring? From this side of the Atlantic it looks like a big election issue. It looks like it has some broad political consensus, which is that it is something to be resisted, whereas over here, maybe not in the same kind of economic cycle. There also seems to be a political consensus, but the other way round. It's something we can manage the worse excesses of, but it's not necessarily something we need to desperately try to roll back?

A: First of all that's not the right description of political consensus in the US. The Republicans are running on 'free trade is good, we are men of principle' and Kerry is running on 'this is a real problem and we need to support the interests of American workers. Here's my plan, which has very minimal measures, and I'm really an Internationalist...

Q: that's New Labour...

A: Yeah. The reality is one side has made a judgement that you need to feel the worker's pain, and do a little bit of mild stuff, but definitely nothing that would get you in trouble with the WTO and the other has said No. We are going to pretend that that's a highly protectionist claim and stand up for free trade because the workers won't believe us if we say we are going to protect their interests anyway. There's a little bit of cynicism on both sides, though I think it's not an even balance. I don't think there is any serious protectionism in the actual policy discussion. That might change but I think it's going to be a replay of the early '90s.

Then we had this huge bit about the loss of jobs in Japan and so on. It quieted a lot once we had a real job recovery, and if we are going to have a real job recovery – the news isn't great but it's better than it has been so far – then again it will fade as an issue. If we don't and if we have a dip in employment then it doesn't matter what the candidates say now, the pressure to go protectionist will be overwhelming.

Q: Why do you think Kerry has a better than even chance to win? Do you think Iraq is going to swing it?

A: I am a complete amateur and you can read the same political websites I do. All the usual stuff: Bush's approval ratings are now well under 50 per cent, which in the past has always meant defeat for an incumbent; the direction of the country is really bad on the polls, Kerry is slightly ahead in most horse race comparisons, but everyone claims that that is not too meaningful at this stage, that if people are down on the president at the end they break with the challenger. Ronald Reagan was running slightly behind Jimmy Carter in the horse race polls at this point but the direction of the country numbers were really

lousy If you look at the supposed battle-ground states, the 'purple' states that could go either way, then Kerry is ahead by substantial margins in that region.

Now all of this could obviously change, but this was just amateur recitation of other people's stuff, but I think it is very hard for Bush to recapture the trust. There was a moment like this in the summer of 2002 when the corporate scandals were starting to break and then they started saying 'war, war, war' and people rallied around the President. I don't think they can do that again, not with war, or any other issue. I think it's very hard to reclaim that. That may be famous last words, but the impression that one has now is that the whole rallying around Bush effect has more than totally dissipated now.

I guess the last thing to say is that I wasn't expecting this, but the business about the photographs. I thought that maybe people would just rally round 'we're America and we're the good guys' but instead there seems to be this national feeling of disgust and a little bit of self-loathing and that can't be good for the incumbent.

Q: Could you offer some advice to those of us on this side of the pond about our relationship to America? There are two schools of liberal opinion here, one is that we need to build up an alternative source of power, namely the EU and in that way, resist America's ambitions. The other, the Blair view, is that we need to draw America into a relationship with the rest of the world, keep it in multi-national frameworks and constrain it in that way. What is your view on that position?

A: Well, that utterly depends upon who is in charge of the United States. If we have the current leadership, which is really radical, and fundamentally ideologically just not in the

same universe as Europe or the UK, it's probably foolish to imagine you could restrain or make a deal. One of the repeated stories if you are watching any of this in the US is of the moderates, who figure that it's better to be inside the tent with the Bushes, having some moderate influence on their policies, than being an outside critic. Without exception, one after another, these people find that they are squeezed until their reputation has been extracted.

You have a long list of people like Paul O'Neill, Colin Powell who's still there and John Dilulio (I don't know if you know the story, he was the faith-based Programme Director and wrote this bitter account about his experience, about how there is no policy apparatus, everything is run by the political arm, the media-Machiavellis are in charge of everything, and then tried to retract his remarks but Ron Haskins had it on paper). The point is that there are moderates whose reputations emerge much diminished from attempting to do that strategy. No one has managed to achieve any moderation in the actual policies.

The Clinton administration Europeans found very easy to deal with and a Clinton-like administration I guess would be the same again. I think it would be a good thing for the world in general if Europe were a significant, independent force, and not just to oppose the US but to do the things that need to be done. It makes no sense in terms of the objective power out there in the world that the US should have to be playing a major role in the Balkans. Why isn't that a responsibility for the democracies of Europe?

Q: Talking about blowing the budget on things that matter or perhaps even having a budget on things that matter, do you think there ever will be a case where there will be a more fully established social insurance and healthcare system?

A: I haven't figured out what is politically possible with healthcare. The US system is a disaster. The amazing thing is that we manage to spend as much as other advanced countries on healthcare whilst still maintaining masses of uninsured people. At the same time we spend a roughly equal amount on private funds, so we end up spending vastly more than everybody else but with worse results and it's just a total mess. If you sit down and try to go through all of this to see what really makes sense, you end up thinking that single payer is the way to go and it's interesting that in Canada even the big corporations are very pro single payer.

Q: Can you explain what single payer is?

A: Single payer is not like the British system of NHS where you have a publicly maintained set of health institutions; it is simply universal health insurance provided by the government. So if you are sick you go to the doctor and the doctor sends the bill to the government and Canada has that kind of system. Now the system does impose rationing, the government will not pay for anything and everything. For someone on the Canadian health system the waiting times for quite a few operations are much longer than the fully insured Americans, who just go the private sources, and probably the very top end in Canada is not as good as the very top end in the US, but the overall quality of healthcare is much better.

At any given time in the US about one person in seven is uninsured, but that's misleading because it's very unstable. It's more like over any reasonable two-year stretch one in three is uninsured, heavily concentrated among children, so it's a really nasty system. The

Canadian system is far cheaper than the US system, partly because overheads are much lower. The overheads of the US system are higher because, insurance companies and health maintenance organisations spend a great deal of money trying to figure out who to exclude. If you have a universal system you don't do that so it ends up being substantially cheaper. This is the argument for a single payer but you have enormous obstacles in the form of a lot of people invest a lot of money (and jobs) into the private healthcare we now have so there is a huge political uphill to overcome.

When Clinton tried his reform he didn't have the nerve to say let's go for single payer. David Cutler has a very good book all about the healthcare problem which seems to be heading right towards single payer and at the very end it goes off and finds another system requiring everyone to have health insurance and having the government top up those who can't. I asked him why and he said we could go to single payer if necessary. My colleague at Princeton just says 'look everybody understands, if you advocate the single payer, given the political realities, you are just out of the discussion.' So I guess the question is whether you could do a Cutler-like scheme, which is kind of a stealth single payer, and then gradually switch it over to be straightforward single payer.

Q: US growth is pretty good and forecast to be pretty good in the foreseeable future, same with inflation. Job growth is a bit different but the question here is where do we get to if we keep on with the same sort of administration and same sort of policies, and what might the trigger points be for a significant worsening in what looks, at the macro level, like a relatively benign set of indicators?

A: Well, productivity growth remains super, slightly mysteriously; the business investment is slowly coming back which is fuelling the recovery, the consumers are still hanging in there so I don't see anything in the normal business cycle indicators to say it won't go on reasonably well. But these things always do catch us by surprise. But what about the budget (I mean the twin deficits: the budget deficit and the current account deficit)? Both of them look as if you would have to say there would come a point when financial markets would say 'wait a second'. The budget deficit I already talked about, the current account deficit is truly huge. I don't think you could find any advanced country running at a deficit like this. As a share of GDP of course, in absolute terms it's completely off the scale and it is in a large part being financed by Asian central banks, which is the other thing which is kind of strange. So then you ask what does it mean? What if the dollar plunges and financial markets get nervous about the US, does that precipitate a crisis or is it just a weaker dollar and that's OK?

We haven't fully thought this out and I've had this feeling that crises do find a way to happen and there's probably something we're missing. I didn't know whether to trust my feelings or not but there is a paper by Peter Orszag and Robert Rubin from last January saying 'crises do have a way of happening' and, since Rubin is the calmest man on the planet, I take that seriously. Interest rates I think a lot about. How many people are actually exposed if interest rates really do rise a lot, which they should under any of these scenarios. But I certainly can't give you a date, and I can't tell you how we'd play it.

Q: There seems to be a strong agreement in the US that migration across the skills spectrum will play a role in the economic dynamism of the US, it's certainly stronger than the more ambivalent picture here in the UK. Could you say a word about the role migration

plays in the economic dynamism at the moment in the US and the role it will play in the future?

A: The US has much better demographics than almost all other advanced countries, that's partly higher birth rates but it's largely migration and that's good. Then we have had a steady influx of the very high-end entrepreneurial migrants which is a big thing, and that's the story you always hear. In Silicone Valley the venture capitalists actually won't back a company unless it contains at least one East Asian or South Asian or preferably both. In fact, the issues that people worry about in Europe are there in the US and there is an undercurrent of concern. There are a lot of low income, low skilled migrants. The concerns about them are whether they are assimilating as fast as past immigrants. I get a steady stream of emails, letters, and reports from the nascent US anti-immigrant backlash. It's there. The organisations are there, the people are there and now they have their heavy weight intellectual; Samuel Huntington. It's one of those things I keep on expecting to happen and it keeps not happening, but I wouldn't take it for granted that the US won't suffer from a form of anti-immigrant back-lash. Again, a down economy could be the issue.

Q: Three quick questions: Are there any significant difference between Kerry and Bush and has Kerry got anything new and interesting to say? The second one is about individual accounts, which you mentioned briefly, has Kerry got any equivalent individual accounts policy? Thirdly, what do you think should be the next?

A: My answers I think are I don't know, No and I don't know! Welfare reform really has sort of dropped off as an issue. The Clinton era reform quieted the whole middle-class

backlash against welfare and it just doesn't pop up in people's minds these days. The predicted severe hardships actually are appearing but less visibly than critics expected so it's not getting a lot of backlash there. Bob Greenstein and his people at the Centre for Budget & Policy Priorities have done a lot of work on this, not one word of which I have read, so this is an issue I should be following, I even know where to go I just haven't gotten around to it.

I don't think Kerry has said much on it. If I were a democrat running for office, this isn't an area I would get into. There isn't an expressed public dissatisfaction with the system and it's just not some place you would want to go, because lurking under the welfare issue is all of the subterranean stuff. It's about race and all of the divisions in US society and it's just not something you'd want to bring up unless you had to.

Q: You said that were Kerry to get in he would have quite a different sort of economic policy, but what was the evidence that Kerry had?

Q: What about US influence in the IFS and the extent in which you think a change in administration would re-engage Third World countries, and the situation if there were no change in administration?

Q: What are the political implications for the privatisation efforts of the Republican Party both in terms of privatisation of the American military and also privatisation of the welfare system?

A: OK, Kerry versus Clinton. So far as we can make out the likely inner circle of advisors really is Clinton the next generation or in some case the first generation of Clinton people. Roger Altman reputedly would be close; he was initial Clinton economic team who was forced out over one of those non-scandals that used to occupy the US. Probably Robert Rubin to succeed Alan Greenspan if Kerry wins, so it really is Clinton again, maybe a bit more populist but not a lot of air between them, for better or for worse. Except to the extent that a lot of people who were very Clintonite and have gotten a little more radicalised, a little more class-warrior in themselves, like myself because of what's happened these last three years.

Economy slogans: I haven't heard a really punchy slogan from Kerry or indeed from Bush. The trouble is that the economy isn't in the zone where things are good enough that you can't easily do the 'this economy is stupid' against the administration, but they are not good enough that you can say 'it's morning in America', so it's in that range. It's really quite interesting if you look again at the polls, the public has turned increasingly negative on the state of the economy even though the numbers are looking a little bit better. Which is poetic justice because during 2002, people were pretty bullish about the economy because of the war on terror. I can't think of anything. Bush had this bus tour in the mid-West and it was originally billed as the Winning the War on Terror Bus Tour, and then they changed it something like Growth and Success, the next slogan was utterly unmemorable – a sort of metaphor for what's happening.

The IFS, I have no idea. I haven't been paying close attention.

On the privatisation of military and social services, I don't know what will happen if Bush is re-elected or elected as some of my friends would say. I think if there is a regime change we are going to have lots of hearings on all kinds of things, lots of information thrown out and we have every reason to believe that there are huge scandals involving privatisation. Bits and pieces are popping up and I think the military is hopping mad about the way it's worked, so I think you will probably see a roll back for this whole push towards privatised military support which dates back to Dick Cheney in 1990/91. I think it's a part of the legacy, which a new administration, with full support of the uniformed brass, would try to roll back.