

Jeffrey Sachs: knocking heads together

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Jeffrey Sachs wrote a [first rate column for the FT](#) last week. Sachs has not always been a favourite of mine, but he's pretty much got this one right. As he puts it:

America's economic debate is stuck in a time warp. On the one side, Mitt Romney's conservative advisors defend tax cuts for the rich and spending cuts for the poor as if we hadn't just lived through 30 years of failed Reaganomics. On the other side, Paul Krugman defends crude Keynesianism as if we've learned nothing in recent years about the severe limitations of short-term fiscal stimulus. Both sides merely raise their decibel levels at each announcement of bad news, as with last Friday's data showing the failure of the US economy to generate sufficient new jobs in June.

Of course I like the Republicanism bashing:

The two sides of the debate live in timeless and increasingly irrelevant ideologies. The prescriptions of free market economics peddled by the Republicans — slash taxes and spending, end financial and environmental regulations — are throwbacks to the 1920s, far more naïve than even modern conservatives such as Milton Friedman and Friedrich Hayek, who recognised the need for government intervention for the poor, the environment, health care and more. Today's free market ideologues are uninfluenced by the lessons of recent history, such as the financial crisis of 2008 or the devastating climate shocks hitting the world with ever-greater frequency and threatening far more than the economy. Their single impulse is the libertarianism of the rich: the liberty to enjoy one's wealth no matter what the consequences for the economy or society.

That's spot on. But it has to be said he has exposed Krugman's weak underbelly too - for he has one, and that's that he is (dare I say it) just an economist. As Sachs puts it:

In Paul Krugman's telling, we are in the 1930s. We are in a depression, even though the collapse of output and rise of unemployment in the Great Depression was incomparably larger and different in character from today's economic stagnation. Krugman channels Keynes, yet Keynes lived in a very different era. In Krugman's simplified Keynesian worldview, there are no structural challenges, only shortfalls in

aggregate demand. There is no public debt problem. There is no global competitiveness challenge, since "competitiveness" is a myth when applied to national economies. Fiscal multipliers are predictable, timeless, persistent, and large. All growth reversals can be solved through larger deficits. Politicians can be trusted to design short-term stimulus spending programmes of hundreds of billions of dollars. Tax cuts are about as good as increases in government spending, and short-term boosts in spending are about as good as long-term public investments. Not one of these conclusions stands scrutiny.

That's harsh, but in the sense that it says Krugman is reverting to type in making unrealistic assumptions with limited relationship to the real world, then he has a point - even if I am sure some will seek to suggest Sachs is himself offering a generalisation. Many will however recognise the relevance of Sachs saying:

Why have we come to this vacuous debate between a free-market extremism and a Keynesian superficiality that addresses none of the subtleties, trade-offs, and uncertainties of the real situation? There are probably two main reasons. First, the world is noisy and overloaded with media messaging. Getting heard seems to require a short, sharp and exaggerated idea endlessly repeated: economics as a media brand. Second, the world is facing novel problems at the global level, and novelty is hard to factor into economics, which is a rigid, ideological, theoretically based, and largely backward-looking field.

True, but amazing really.

And I think some issues that Sachs highlights do suggest areas where Krugman is weak. For example (and I edit heavily):

First, the financial markets are global while regulation is at best national (and sometimes almost non-existent or criminal). This is killing the euro, but it is also undermining financial regulation and monetary policy everywhere.

True: real reforms are needed.

Second, the world of work is being fundamentally transformed. Low-skilled work is the work of offshore workers, or immigrants, or machines.

True: almost ignored is the fact that capital now has the right to abuse labour with legal impunity under many trade and labour agreements. No wonder we're in crisis.

As important:

Third, tax collections today are little more than a Swiss cheese of tax evasion and tax havens for the rich and corporations.

An absolutely fundamental issue: states will never balance their books if they can't

collect tax.

Fourth, we are in the age of the Anthropocene, where global growth is limited by natural resources, climate change and hazards.

But unconditional growth remains the objective for most economists.

Fifth, the combination of falling tax collections on capital income and the rich, and rising costs of retirement and health care for a quickly aging population, poses serious long-term solvency challenges for most of our governments.

That, or old people are going to die: you take your choice. But those are the options if we do nothing.

Sixth, in a world that requires serious regulation — for the environment, land use, financial markets and more — there are bound to be problems in coordinating public policies with private investments, and across sectors of the economy. Coherent economic strategies can help to break through investor pessimism and stagnation. Well-designed public investments (eg in infrastructure) can unlock significant private investments as well.

Sure, that's Keynesian, but it's more than that: Keynes would have had people dig holes and fill them in. we know that is now nothing like good enough.

As Sachs concludes (edited):

In short, we need new economic strategies to overhaul broken systems of finance, labour markets, taxation, ecological management, budget management and investment incentives. Those challenges cannot be fixed through lowering taxes on the rich or higher fiscal deficits to create aggregate demand.

It's time we moved beyond the Republican Party economics of the 1920s and the Democratic Party economics of the 1930s, to a new macroeconomics for the 21st century.

It's impossible not to agree. The "none of the above" choice when looking at the branches of conventional economic thinking (and as Krugman showed in his recent debate with Steve Keen he's definitely in the conventional thinking bracket) is the only rational one to pick.

And what is really needed is policy that tackles global capital and makes it accountable locally by changing accounting, defeating tax havens, enforcing regulation, taming financial flows, holding banks to account, and in the process restoring the right of countries to raise taxes in fulfilment of their democratic mandate.

It's a choice, as [Dani Rodrik say: global capital v democracy and the nation state](#).

1% including most economists are on one side and 99% on the other. The 99% have to win this one. Sachs is right in saying most economists have not embraced this reality.