

INTELLECTUAL AMMUNITION

Enron, Krugman, and the Public Intellectuals

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The failure of **Enron** has had important impacts for its shareholders, creditors and business counterparties. There will be some important second-order impacts, too.

Enron has already become an excuse for politicians and special interest groups to seek useless and costly new regulations to "prevent another Enron in our lifetime." For example, I've already written about the abusive attempts to employ the problems in Enron's 401(k) plan to scuttle the individual investor empowerment revolution, and set back the cause of privatizing Social Security (see ["What Enron's Collapse Doesn't Mean"](#) December 4, 2001).

And Enron has surely triggered a new skepticism about the integrity of the disclosure process for public companies -- in an era of when widespread use of "pro forma" earnings have further elevated what is an already historically high plateau in equity valuations. If the underpinnings of valuation begin to be questioned deeply enough, those valuations could be threatened (see ["Biotech Comes Down With Enronitis"](#) January 24, 2002).

But there is one respect in which Enron *doesn't* matter, at least not very much -- and that is last week's embarrassment of the punditariat *en masse*, as one after another of them was "outed" for being on Enron's payroll in one way or another. It has been revealed now that such headline members of the nattering class as **William Kristol**, **Paul Krugman**, **Lawrence Kudlow**, **Peggy Noonan**, and **Irwin Stelzer** have all been paid by Enron for various services over the last several years -- making them the very "crony capitalists" that they themselves are railing against.

I've taken great satisfaction in these revelations, coming as they do just as these commentators have elbowed their way to the head of the Enron lynch-mob to try to give the impression that they are leading it. A particular pleasure has been watching Paul Krugman squirm like a butterfly on a pin, waiting for the gas to be administered, brought down by the same kind of attacks on his personal integrity that he himself deals out to others so irresponsibly from the high mountaintop of his *New York Times* column. But I have no particular sympathy for the others in this matter, either.

What we see at work here is a perfect laboratory example of the principles described in [Public Intellectuals: A Study of Decline](#), the extraordinary new book by **Richard Posner**, Judge of the US Court of Appeals for the Seventh Circuit. Some of the people who got ensnared in Enron's web wouldn't even qualify for Posner's high-brow definition of a "public intellectual" -- after Krugman and Kristol, Posner would probably regard most of them as little more than teevee talking heads. But the conclusion he reaches in this far-reaching and scholarly study applies to *all* of them, however elegantly credentialed they may be: their output is demonstrably of consistently low quality.

For example, Posner cites this howler showing of the low quality of Krugman's output as a public intellectual:

"He was not hired by the *Times* for his record as a prophet. In a book published in 1990 [[The Age of Diminished Expectations](#)] he had offered as 'the most likely forecast for the U.S. domestic economy in the 1990s.... fairly slow growth, modestly rising incomes for most Americans, generally good employment performance, [and] a gradual accumulation of inflation' to 7 percent. He predicted that by 2000 the United States would 'have sunk to the number three economic power in the world,' after Europe and Japan, and that the world economy would be less unified than it had been in the 1980s. He published a 'revised and updated' edition four years later, but retained these predictions."

Posner's economic analysis of the market for public intellectual product concludes that its consumers don't have any illusions about its quality.

"Public intellectual work... is a classic 'credence' good, a good the consumer must take largely on faith because he cannot inspect it to determine its quality... Absent...from this market are the conditions (such as an informed consuming public or expert consumer intermediaries, legally enforceable warranties of product quality, and high costs of exit for sellers detected selling products of poor quality) that discipline other markets in credence goods. The public protects itself against the high variance and low average quality of public-intellectual work mostly by not taking it very seriously.

"...There is even a vicious cycle at work. The less accurate that public intellectuals are in their assessments or predictions, the less seriously they are taken, which reduces the demand for accuracy..."

Posner argues that public intellectuals primarily entertain the general media audience, and provide moral support for that fraction of the audience whose special interests they represent. So it really doesn't matter whether or not what they say has any objective value. This would be especially true in cases such as Krugman's, in which the output is of such a nakedly political character.

"Most public intellectuals are identified with one or another ideological school, such as welfare liberalism, multiculturalism, social conservatism, or libertarianism. Most of their readers are members of the same school and are seeking to shore up their own preconceptions rather than see them challenged. When a public intellectual's predictions go awry, normally as a result of his having extrapolated some current trend that his ideological confreres consider dire, they are reluctant to drop him. To do so would discredit their side of the ideological divide. Instead they close ranks around one who fought the good fight, albeit unsuccessfully."

But under Posner's analysis of public intellectual product as a "credence good," reputation damage of the type suffered by Krugman and the others for their association with Enron may be the one and only way that a public intellectual can lose value in the market.

"Aristotle's theory of rhetoric emphasizes the 'ethical appeal,' which means trying to persuade your audience that, quite apart from the intrinsic merit of your argument, you are the type of person who is worthy of belief. ...The ethical appeal is an appeal to the authority of the speaker or writer. Credentials, style, appearance, character -- and audience's belief in the quality of these inputs into the speaker's output can increase the credibility of the output with that audience."

No wonder Krugman has gone through humiliating and transparent contortions to transform his past references to his association with Enron into "disclosure." And no wonder that he is eager

to make sure that -- as long as mud is getting all over himself -- it is getting all over all his rivals, as well.

When the mud-slinging is over, though, Krugman may well come out on top. I believe it was **Mark Twain** who said, "Don't wrestle a pig in a mud hole. You both get all dirty, and the pig enjoys it." **TM**