

Paul Krugman on The Size of Finance

I don't always agree with Paul Krugman, but in this op-ed from a couple of days ago he makes some good points about the size of the financial services industry. He's prompted to do so by Michael Lewis's new book *Flash Boys* (although Paul Krugman probably needs little encouragement to whack Wall Street). But the dead straight tunnel from Chicago to New York, built that way to save milliseconds off the time it takes to transmit a market order between the two cities, may be the catalyst that draws a needed review of all this computerized trading activity. The fact that the tunnel was apparently a good investment highlights that the market is not as focused on serving end-users as it should be.

As Krugman points out, drawing on work by Thomas Philippon (whose research I found helpful in writing *Bonds Are Not Forever*) the financial services industry has grown much faster than GDP since 1980 and the abovementioned tunnel inspires one to question whether more is always better for this sector. Channeling savings to productive forms of capital formation is society's legitimate objective; the less this is done, the greater should be the subsequent public policy examination of financial services.