Marginal REVOLUTION

Keynes is slowly losing (winning?)

by Tyler Cowen on November 27, 2014 at 12:48 am in Economics, Uncategorized | Permalink

Paul Krugman has an interesting blog post arguing that Keynes is slowly winning. But, I must admit, I find it dismaying how little of the contrary evidence is considered. Let's say you set out to write a blog post about Keynes losing, what might you cite?:

1. Keynesians predicted disaster following the American fiscal sequester, and the pace of the recovery accelerated.

2. Even Obama and the Democrats are writing down, and seeing through, budgets with declining levels of discretionary spending.

3. The UK saw a rapid recovery, and the BOE kept nominal gdp growing at a good pace, even in the presence of a so-called "liquidity trap." This is not mainly due to the UK having "stopped tightening," nor did the Continental economies which let up on austerity see similar recoveries. Nor had the Keynesians predicted that letting up on tightening would bring such a strong recovery, Summers for instance had predicted exactly the opposite.

4. Rate of change recoveries in the Baltics — which really did try a kind of radical austerity — have been stronger and more rapid than Keynesians were predicting, even if absolute levels remain less than ideal.

5. France doesn't seem to have much interest in trying additional government spending, even though their economy is flailing and no other attempted remedies have been successful.

6. Ireland finally is seeing a rapid recovery, albeit one with highly uneven distributional consequences and possibly another real estate bubble. The "get the pain over with" approach is looking better right now than it did say two years ago.

7. It is the ECB which seems to hold all of the levers in the eurozone, and the Japanese central bank which is making the (possibly failed) splash in Abenomics. That may be anti-anti-Keynesian, but it's not exactly Keynesian either.

8 The Chinese have moved to discount rate cuts, and they seem to realize that more fiscal spending will only postpone their day of reckoning in terms of excess capacity. That's not an "anti-Keynesian" attitude, given the current features of their economy, but it's not exactly screaming the relevance of Keynes's **GT** either.

9. It looks like Germany actually will support some additional infrastructure spending. You could call that a Keynesian victory, but more likely it also will be used to shut down further debate. Here is one estimate of what will be done. It's not that much.

10. Japan is in a (supposed) liquidity trap, but negative real shocks have not in fact helped their economy, contra to the predictions of that model (start with here and here). Nor does anyone

think that the bad weather in the first quarter of U.S. 2014 was good for us, although a basic liquidity trap model implies it will boost inflation (beneficially) because the supply restrictions lead to price hikes which tax currency holdings and thus boost AD. Come on, people, that is weak.

11. A lot of the cited predictions of the Keynesian or liquidity trap model are in fact simple predictions of efficient markets theory (such as on interest rates), predictions of market monetarism or credit-based macro theories (low inflation), or regularities that have held for decades (budget deficits not raising real interest rates). It's just not that convincing to keep on claiming these predictions as victories for Keynesianism and in fact I (among many others) predicted them all too. I never thought I was much of a sage for getting those variables right.

12. Whether we like it or not, large chunks of Asia still seem to regard Keynesian economics with contempt. They prefer to stress supply-side factors.

13. At the Nobel level, Mortensen, Pissarides, and Fama do not exactly count as Keynesian material, admittedly Shiller is on the other end of the scale, though even there I am not aware he has a strong record of speaking out on behalf of activist fiscal policy.

14. It is now widely acknowledged that there has been a productivity problem in recent times (or maybe longer), and thus those measurements of "the output gap" are looking smaller all the time. Again (a common pattern in these points), nothing there implies "Keynes is wrong," but it does make Keynes less relevant.

15. Where Keynesian views have looked very good is that government spending cuts do — these days — bring steeper and rougher gdp tumbles than was the case in the 1990s. That is very important, but a) it is increasingly obvious that there is catch-up for countries with OK institutions, and b) correctly or not, the world really hasn't been convinced there is major upside to expanding fiscal policy.

The point is not that these citations give you a fully balanced view — they don't! And it would be wrong to conclude that Keynes was anything other than a great, brilliant economist. Rather these citations, *plus many of Krugman's points*, give you some beginnings for this issue. It's not nearly "Keynes's time" as much as many people are telling us, after all his biggest book is from 1936 and that is a long time ago. Keynes is both winning and losing at the same time, like many other people too, fancy that.

67 comments Reddit

Ronald Brak November 27, 2014 at 1:33 am

It seems a bit odd that people overseas often seem to forget Australia, which was the only developed nation that had a Keynesian stimulus equal to the size of the size of the expected economic downturn and the only developed nation not to suffer a recession as a result of the Global Financial Crisis.

Reply

So Much for Subtlety November 27, 2014 at 2:50 am

Obviously this is somewhat obscured by the fact that Australia is in the middle of a generation-long economic boom because of China. It is hard to see how the Australian economy could slip into recession as long as China is growing as fast as it is. Whether or not the previous government spent the family silver on their favorite clients or did nothing or went around stealing underwear. It really wouldn't matter short of genuine Third World kleptocracy incompetence.

Reply

Ronald Brak November 27, 2014 at 3:08 am

You are on the internet so I don't see how you could possibly entertain this idea for more than a few minutes. It is wrong for two obvious reasons. Firstly, if you look at what happened to the price of Australia's mining exports after the GFC you'll see they plunged and stayed plunged for a considerable amount of time. Australia was fortunate that they picked up again thanks to stimulus in China and elsewhere, but mining certainly didn't prevent Australia from having a recession. Mining contracted more than the average of the rest of the economy, so it was a larger albatross around the neck than other sectors. Secondly, if you thought this through and maybe looked up one or two details, you'd see that if mining was responsible for Australia not suffering a recession then Australia dumped a stimulus equal to about 4.6% of GDP into a healthy economy without it feeding into inflation. You'll have to admit that's pretty darn amazing. Down right magical in fact. And if there is something magical about Australia that lets us do that then I see no reason for us not to have a big unsterilized 4.6% of GDP stimulus every year. Just think what we could do with all that stimulus money coming to us each year without inflation problems! It would be like living in a dreamland, which a number of people already appear to be doing.

Reply

BC November 27, 2014 at 3:26 am

Did Australia ever get close to the zero-rate bound? I thought that even (New) Keynesians like Krugman agreed that, away from the zero-rate bound, fiscal policy didn't matter due to monetary offset. Australia's success at avoiding a deep recession was due to monetary policy, not fiscal policy.

Reply

Ronald Brak November 27, 2014 at 3:37 am

BC, Australia had a stimulus intentionally to avoid coming up against the zero-rate bound. Once it's been hit things have been left a bit late. But if you look at the real cash rate (calculated using the average of weighted median and trimmed mean inflation) then that did become negative for an extended period. It is clear that the 4.6% percent of GDP stimulus made up for a short fall that otherwise would have occurred because it didn't feed into inflation. If that's not the case then we're left with magic having occurred.

Reply

Daniel November 27, 2014 at 4:32 am

How nice of you to try to have your cake and eat it too. Interest rates never hit zero in Australia – therefore, any talk of "Keynesian stimulus" if either obfuscation or idiocy.

Reply

Ronald Brak November 27, 2014 at 4:44 am

Daniel, interest rates not hitting zero was quite intentional. Zero interest rates are not a good thing. Now you could tell me your definition of what a Keynesian stimulus is, I think it's the sort of stimulus Keynes would have recommended in the situation we were in, which is what we had, but you might have your own take on that. But are you suggesting that Australia had a stimulus equal to 4.6% of GDP in a healthy economy without that feeding into inflation? Because, as I've mentioned, that would be magical.

Ronald Brak November 27, 2014 at 4:50 am

Just to be clear, I will point out that the stimulus Australia had was what we call Keynesian. It probably would not have been exactly what Keynes would have prescribed, to no small part on account of how he had been dead for over 50 years and so had missed out on a lot.

Daniel November 27, 2014 at 5:04 am

Go read what Keynes actually said on the matter (wrong as it was), and get back to me after you're done.

Ronald Brak November 27, 2014 at 5:25 am

Daniel, rather than read up on Keynes, I'm more interested in finding out if you think Australia added a stimulus of 4.6% of GDP to a healthy economy without it feeding inflation. Is that what you believe happened?

Daniel November 27, 2014 at 6:08 am

Public borrowing doesn't bring about new money into existence. The central bank does that.

Now go away and edumacate yourself. You're an embarassement.

Ronald Brak November 27, 2014 at 6:25 am

So Daniel, are you saying that if Australia had another 4.6% of GDP sterilized stimulis right now in an economy that isn't (at the moment) close to the lower bound it wouldn't feed inflation?

Daniel November 27, 2014 at 6:46 am

You are literally so stupid you cannot begin to grasp the implications of your pet theory.

Are you actually saying the price level is determined by gov't spending ? So we have the enlightened folks in Parliament to thank for two decades of low and stable inflation ?

You're so stupid it's mind-boggling.

Ronald Brak November 27, 2014 at 6:55 am

So Daniel, do you think that if Australia had a stimulus equal to 4.6% of GDP now it wouldn't feed inflation? If you give me a simple yes or no I'll be able to understand what your answer is.

Daniel November 27, 2014 at 7:05 am

The price level is set by the central bank. So the answer is NO.

Moron.

Ronald Brak November 27, 2014 at 7:10 am

Thank you for your reply Daniel. So just to be clear, if Australia at this time had a stimulus equal to say 50% of GDP and stimulus payments of tens of thousands of dollars were given to all Australian citizens you don't think this would feed inflation?

Daniel November 27, 2014 at 7:27 am

You really aren't very smart, are you ?

How many times do I have to repeat myself ?

The price level is set by the central bank, since it is they who control the supply (and demand) of base money.

Can you understand that, or is it too much for your feeble brain ?

Ronald Brak November 27, 2014 at 7:38 am

So Daniel, if the Reserve Bank deposited $50,000 in the bank account of every adult Australian you don't think this would result in people purchasing more than they would otherwise, leading to shortages in the supply of goods which then lead to higher prices and an increase in inflation? You don't think that would happen?

Daniel November 27, 2014 at 8:54 am

Where does that hypothetical money come from, imbecile ?

If it's newly-created – then yes, you'll have inflation.

If it's the result of redistribution – then you won't.

I'm starting to get tired of your stupidity.

Ronald Brak November 27, 2014 at 9:03 am

Daniel, I'm inclined to think that if the Reserve Bank placed $50,000 in the bank account of every adult Australian we'd have a situation that would lead to inflation whether the stimulus was sterilized or unsterilized.

Daniel November 27, 2014 at 9:35 am

I'm inclined to think you're an idiot.

Jason Dick November 27, 2014 at 10:53 am

Daniel, do you somehow think that the central bank sets the price level without adjusting interest rates?

Daniel November 27, 2014 at 4:31 am

It seems a bit odd how armchair economists prattle about "Keynesian stimulus" while ignoring the elephant in the room – namely, that the RBA kept NGDP growing at a steady pace (unlike the Fed, the ECB and the BOJ).

Reply

Michael G. Heller November 27, 2014 at 6:19 am

The stimulus was irrelevant in Australia. As someone else mentioned, it was as relevant as the resources boom. What was relevant [ENTIRELY thanks to the previous rightwing government] is that the ENTIRE national debt was paid off deliberately piece-by-piece before the crisis. And the ENTIRE banking sector had undergone regulatory reform. So you can go back to sunning yourself by the billabong with your super safely in your pocket.

Reply

Ronald Brak November 27, 2014 at 6:26 am

So Michael G. Heller, do you believe that Australia was able to have a stimulus equal to 4.6% of GDP in a healthy economy without it feeding inflation? How did that happen?

Reply

Michael G. Heller November 27, 2014 at 6:47 am

You seem to have missed the point. It's because of the Black Swans in

Australia. Not be confused with the Black Armbands I hasten to add. It's a historical lesson learnt about sudden and unexpected vulnerability in harsh environments. Among all the advanced countries Australia was uniquely well prepared for an economic crisis – robust, resilient, antifragile. Not perfect of course. Bad housing sector policy for example. But in fiscal and monetary terms it was rock solid before the global debt bust thanks to Treasurer Peter Costello's careful husbanding. Read my lips – it had no debt. Getit?

Reply

Ronald Brak November 27, 2014 at 6:56 am

So, Michael G Heller, if Australia didn't have a stimulus equal to 4.6% of GDP do you think that its economy would have contracted by about 4.6%?

Michael G. Heller November 27, 2014 at 7:37 am

4.6% is the magic number. Why am I living in Australia rather than the UK? I can get 4.6% interest on the savings built up in the balanced budget years. Stop worrying, Ronald, you're in paradise.

Ronald Brak November 27, 2014 at 7:45 am

I'm a bit confused, Michael. Australia had a stimulus of about 4.6% of GDP and it didn't lead to inflation. If the economy would have contracted without it, then we know what happened to that stimulus. It made up for the short fall that otherwise would have occurred. But if the Australian economy was healthy at that time and didn't require the stimulus, then where did it go? Is Australia such a great place that we can have a 4.6% of GDP stimulus each year without it feeding inflation? If so, I think I'll buy a jet ski with the next load of stimulus money and the year after that I'll crocodile proof my mum's yard and buy her a cat.

Michael G. Heller November 27, 2014 at 8:01 am

That makes sense. You can't buy your mum a cat until you crocodile proof the yard. But I don't know the answer to the inflation question. Let's trust in the non-Keynesians to sort it out.

Ronald Brak November 27, 2014 at 8:19 am

Okay, Michael, but I don't see how you can confidently state that the stimulis was irrelevant when you don't even know what happened to it. When a stimulis equal to 4.6% of GDP disappears like that I think it's pretty likely it went into preventing an economic contraction that otherwise would have taken place.

Aristophanes November 27, 2014 at 7:52 am

Funnily enough, the fiscal stimulus in Australia was designed with a randomisation mechanism to allow its effect to be estimated after the fact. This is what they found: http://www.rse.anu.edu.au/media/197115/dp689.pdf

Unsurprisingly the government at the time didn't exactly go out of their way to draw people's attention to said finding.

Reply

Locke November 27, 2014 at 1:45 am

Glad to see PK get called out on that post.

Reply

The Other Jim November 27, 2014 at 8:19 am

Krugman only writes one post, repeatedly. It's called "I love government spending, and I'm going to prove how great it is by making things up and never considering any alternate views."

He is called out on it every single time he writes it. Fat lot of good it does.

Reply

Nylund November 27, 2014 at 3:10 am

The definitions of "winning and losing" seem to conflate two concepts: 1. Are the model's predictions accurate? 2. Is it popular with policy makers?

Those two things are not only distinct, but not necessarily even correlated.

Personally, I am not interested in number 2. I do not take their actions as a sign that one particular action is correct or incorrect. The list of poor policy decisions (in any realm) is too long to think that just because someone did it based on some theory then that theory is correct. Policy makers have acted based on poor theories too many times to count. To think otherwise would mean that no one should ever distrust government actions.

For the first, the complication with all theories, especially those concerning macroeconomics, is that every policy needs to be compared to the unrealized (and thus unobserved) missing counterfactual. It's not so much did "thing I care about" go up (down) but did it go up (down) by more or less than it otherwise would have? The best we can do is look at natural experiments. For macro, there are rarely good ones.

The end result is that neither Tyler, no PK, has really said anything that would sway my beliefs one way or the other.

Reply

Vivian Darkbloom November 27, 2014 at 5:31 am

Very good comment.

Reply

dan1111 November 27, 2014 at 6:47 am

You are right about the two issues being separate.

However, Krugman's post was about #2, with #1 brought in as a supporting argument for its popularity ("the anti-Keynesians have been wrong about everything"–with typical Krugman subtlety). I think Tyler is just responding to the argument Krugman made.

Also, #2 may be mostly irrelevant as a measure of correctness of the theory, but it is awfully important nonetheless.

Reply

vlade November 27, 2014 at 3:59 am

Ad 3) – PPI added at least 0.25% to the GDP every year since 2011 (total paid out is about 16bn, UK GDP is about 1.6bn, so it's 1% over 4 years). If money multiplier is > 1, then it's anywhere between 0.3-0.5% per year.

Which actuallly does support Keynes. See, a few things that get missed (IMO) is that most often Keynes advice to spend is interpreted as "state spending via intermediaries". Keynes' anecdote is actually "pay people to dig holes and fill them", i.e. move the cash to a broadest audience possible. Which incidentally the 3) above with PPI seesm to support, rather than contradict.

State spending ala Japan and a lot of other states via intermediaries can be effective only if the money pass down. For which there's too many incentives not to.

On the supply side. TBH, "supply creates its own demand" is just so off this world that I can't see how it ever coudl have been practiced. It's wealth that makes demand, not supply. Pushed ad-absurdum, if I have a fully automated factory that employs no-one, and there are no other employers in the town, I can crank as much stuff as I want, almost as cheaply as I want, but no-one will be able to buy it.

Supply side entirely ignores that more supply does not automatically mean more means to pay for the supply, indeed, it can run contrary (with increased automation). We (the world) have massive demand problem. Or rather I'd say the demand is there, but there are two prerequisites to be able to satisfy demand. The supply (and there's plenty of that), but also the ability to _pay_ for the supply. And there's not enough of that. And that's what it all really boils down to. If you have an IT company where marginal cost of sale is 0, so any gain goes to a few beneficiaries (few employees, owners, debt holders). But someone still has to pay for it, and unless those folks are getting money somehow, they can't.

A capitalism w/o a reasonable (this does not mean "equal", it just means w/o massive concentration on the top end) distribution of income is doomed to fail, as the ability to satisfy the demand evaporates.

Reply

Tom November 27, 2014 at 4:09 am

Where Krugman has clearly won, even if some non-Keynesians have also won, is on his prediction of continued low inflation despite monetary stimulus. His liquidity trap theory was a fine way of explaining it, though there are also other ways. His liquidity trap theory is not from Keynes, really, but from Hicks, Most Keynesians expected QE to be somewhat more inflationary, as standard New Keynesian models predicted.

Where Krugman has partly won is in convincing a huge part of society of the benefits of fiscal stimulus and the horrors of austerity, especially young left-liberals. Large numbers of starry eyed young leftist idealists are now in favor of more military spending if it will boost aggregate demand. The counterexamples Tyler cites are all correct but they seem to be easily ignored.

Where Krugman has won nominally but not in real terms is in getting the "secular stagnation" theory accepted. Though for some reason most people wrongly credit Summers for reviving it, and seemingly no two people agree on what exactly secular stagnation means, and nobody's paying attention to Krugman's complaint that they're getting the meaning of it wrong. Increasingly it merely means national real growth rates have slowed, for any old hodge podge of reasons you like.

Where Krugman has mostly lost is in convincing governments of the benefits of fiscal stimulus and the horrors of austerity.

Where he most deserves to lose is his laser focus on calibrating aggregate spending, when even a pure socialist knows that future growth rates depend on how well each and every specific investment decision succeeds.

Reply

Tom November 27, 2014 at 4:27 am

PS Where Krugman has also won is in convincing most people of the horrors of deflation. Others have helped including non-Keynesians. But even if most people don't understand why – they think it's because consumers delay purchases (nonsense), or debt is harder to repay (a problem of surprise disinflation, not of deflation). And even if his own explanation doesn't fully make sense – he claims deflation results in overly high real interest rates, but borrowers measure real rates in terms of their own future expected incomes, not expected future consumer prices. No matter, most people are certain that deflation is a danger.

Reply

Daniel November 27, 2014 at 4:36 am

low inflation despite monetary stimulus

Seeing as how US NGDP growth rate has been 4% in the last few year, I conclude that only an idiot would talk about ""monetary stimulus".

It's M*V, not M !

If you triple the monetary base while velocity goes down by a factor of 4, you have TIGHT MONEY !

Reply

Michael November 27, 2014 at 10:59 am

"Large numbers of starry eyed young leftist idealists are now in favor of more military spending if it will boost aggregate demand."

Not really. Those "starry eyed young leftist idealists" would rather see spending on infrastructure and rolling back the unprecedented loss of public employment, primarily K-12 education. Unfortunately we live in a time where investing into America is considered radical Keynesianism.

Investing into America was not always so contentious.

Reply

Daniel November 27, 2014 at 4:39 am

Seeing the endless back-and-forth about the virtues of Keynesianism (vs Austrianism, or MMT, or other such cockamamie ideas), I am more and more convinced that most economists are in fact idiots who cannot grasp the implications of their own theories.

So-called "Keynesianism" relies on an assumption of a fixed monetary base. When you cannot increase M, you have to try to influence V.

However, we no longer live in a world where M is fixed. Until we do, Keynesianism is useless.

RIP, you will not be missed.

Reply

Tom November 27, 2014 at 5:10 am

"The UK saw a rapid recovery" – this can't be right? Took 6 years for GDP to regain pre-crisis peak. On a per capita basis still well down…

Reply

dan1111 November 27, 2014 at 6:51 am

1) The recovery took awhile to come, then it was rapid once it started. Perhaps this matters to the kind of story you want to tell about it, but my point is just that "rapid" is accurate.

2) The UK's recovery might not be that impressive absent context. But it is doing far

better than most of Europe.

Reply

Tom November 27, 2014 at 7:40 am

'Recovery' implies progress from recessionary trough surely? In which case 'rapid' is not quite right. Really what you are saying is current rate of UK growth is rapid relative to other countries, which is a different story. 'most of Europe' of course includes the Eurozone (different circumstances – i.e. most countries don't have control over their currency) and which, of course, was subject to austerity measures so it's not clear what value that comparison brings in this debate…

Reply

Boonton November 27, 2014 at 6:10 am

Again I'll put forth my simple rules:

1. Print money and increase fiscal stimulus (tax cuts are fine if you don't want actual gov't spending, Obama's stimulus was about 50% tax cuts).

2. Do you have inflation picking up?

3. If yes, go to 1, no go to 4.

4. Decrease #1.

Point here is that ultimately Keynesian policies are about proving you have achieved full employment, that you cannot increase output anymore given the current supply side policies and resources you have. Things like the unemployment rate decreasing are useful metrics but flawed (a low unemployment rate hides the fact that there are people not in the labor force who might come back in if demand increased)..

It is fair to test Keynesian claims that austerity would make the crises worse yet as many on the right have pointed out austerity has been imperfectly implemented. Consider total gov't spending in the US (http://www.usgovernmentspending.com/spending_chart_2005_2015USr_16s2li011mcn_F0t). It rose rapidly after 2006 from 5T to a bit over 6T. While the increase then stopped it hasn't really gone down. At the same time monetary stimulus remained strong. While policy did not utilize my method above to confirm full employment, it was not a clean test of austerity inducing under-employment.

Krugman is absolutely right that the austerity/Austrian theory was tested and failed horribly in the last 5 years or so. You can assert that failing to employ Keynesian policies to their limit was tested but there the theories predictions are not clean. Keynesian theory does not predict the end of the world in that case but just a slower recovery, and lack of achieving full employment.

Reply

dan1111 November 27, 2014 at 6:52 am

"austerity/Austrian theory was tested and failed horribly in the last 5 years or so"

Really? Compared to what?

Reply

Boonton November 27, 2014 at 6:55 am

Theory predicted that printing lots of money would make lots of inflation. Didn't happen. Likewise 'expansionary austerity' failed as well.

Reply

dan1111 November 27, 2014 at 7:02 am

The first claim was pretty decisively disproven, but the second is not at all clear.

Reply

The Other Jim November 27, 2014 at 8:21 am

Yeah, as long as you don't eat or drive or heat your home, there hasn't been any inflation at all. You make a truly fantastic point.

Reply

Boonton November 27, 2014 at 9:10 am

Before Mitt Romney won the GOP nomination Newt Gingrich was running on gas prices. He was promising if elected he could get gas down to $2.75 a gallon. Right now in NJ gas is $2.58 a gallon.

ladderff November 27, 2014 at 8:58 am

Boonton: consistently wrong.

Boonton, rhetorical question (that means I don't want you to write your answer here because you'll be more concerned about saving face than avoiding error): So the papers say there's no inflation, but the government is acknowledged to be printing lots of money. Where does it go?

Keynes = clever but wrong.

Reply

Boonton November 27, 2014 at 9:24 am

1. I do not see how that is a rhetorical question.

2. Where does it go? Well why would printing money cause inflation? Think about mechanics here.

Bakery makes 100 rolls a day and sells them for $1 each. Gov't prints $200 and gives it to roll eaters. What happens:

A. People show up buying 2 rolls each instead of 1. Bakery runs out of rolls after 50 customers leaving the next 50 frustrated.
A2 Bakery realizes early they are selling a lot of rolls, so they raise the price to $2.

B. The bakery realizes they are selling more rolls than usual. They happen to have a spare oven so they fire it up and make 200 rolls instead of 100.

C. People are worried so they take the extra $100 and stuff it in their mattresses. The bakery sells as many rolls as it did before so prices don't change and roll baking doesn't increase.

Inflation only happens in A. B represents stimulus doing what it is supposed to do. C represents a Keynesian liquidity trap.

Reply

Daniel November 27, 2014 at 10:07 am

The liquidity trap does not exist.

Now go away.

Reply

Boonton November 27, 2014 at 10:47 am

http://theeconomiccollapseblog.com/wp-content/uploads/2010/01/United-States-Money-Supply.gif

US Money supply appears to have tripled over the last few years. Are you going to tell us prices tripled or GDP tripled?

Lib@lib.com November 27, 2014 at 8:51 am

Ie, Krugman is a pure partisan hack liar, not an economist, said more politely by Tyler.

Krug has written 20 articles on no recent rise in inflation, screaming about his correctness, but whitewashes or flat out lies about his and Keynesianism's giant litany of failure.

Reply

Brent Buckner November 27, 2014 at 8:51 am

Which Keynesians – paleo-Keynesians or neo-Keynesians? Scott Sumner maintains that the Market Monetarists are neo-Keynesians and that they're winning!

Reply

ThomasH November 27, 2014 at 9:55 am

Krugman has a habit of confounding anti-anti Keynesianism (the belief that neither monetary nor fiscal stimulus should be employed in a crisis) with "Kenesinaism." His evidence is that anti-anti-Keynesianism is loosing. This is unfortunate in that it fails to identify the exact errors of policy during the Recession and recovery, namely, that monetary authorities did not keep NGDP growing at pre-crisis trend and fiscal authorities did not invest in projects projects whose net present values became positive at low borrowing costs – a fiscal response that would look a lot like crude keynesianism. That crude Keynesiam (fiscal only response) would be an improvement over no fiscal stimulus when there was also a less than optimal monetary response is correct, but advocating it without explaining the reasoning looses a teaching moment.

Scott Sumner is better in that he clearly focuses on the monetary response, but elides the role of increased public investment.

Reply

Peter K. November 27, 2014 at 10:11 am

Why doesn't Cowen consider the possibility that QE helped compensate and negate the effects of austerity? It could be that the original Obama stimulus combined with the efforts of the Federal Reserve strengthened the economy enough so that it was able to weather austerity and the sequester better than anticipated. The fact that Cowen doesn't consider this a possibility is just another example of his anti-government, anti-Keynesian bias.

Reply

meets November 27, 2014 at 11:16 am

And how is QE Keynesian, exactly?

Reply

Peter K. November 27, 2014 at 10:16 am

"Keynesians predicted disaster following the American fiscal sequester, and the pace of the recovery accelerated."

The "recovery" is still really lame historically speaking despite the efforts of the Fed.

Reply

Brian Donohue November 27, 2014 at 10:36 am

Krugman is exploiting an anomaly in right-wing economics among the hard money types to discredit right-wing economics generally. Clever, but it won't last.

Scott Sumner has been more right more consistently than all y'all for six years running now.

Reply

meets November 27, 2014 at 11:17 am

I'm not sure how any can possibly be convinced or have their minds changed after reading Krugman.

He's preaching to the choir.

Reply

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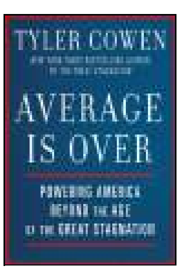
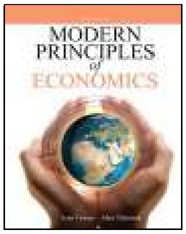


Average Is Over: Powering America Beyond the Age of the Great Stagnation



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[Launching The Innovation Renaissance]

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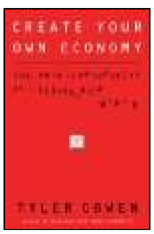

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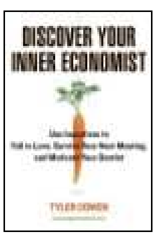

[Discover Your Inner Economist]

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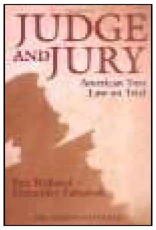
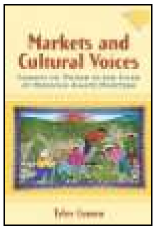
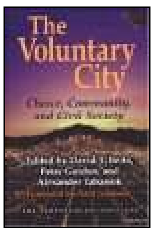


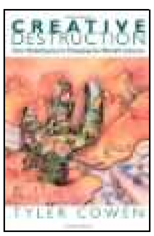
[Judge and Jury: American Tort Law on Trial]



[Markets and Cultural Voices: Liberty vs. Power in the Lives of Mexican Amate Painters (Economics, Cognition, and Society)]



[The Voluntary City: Choice, Community, and Civil Society (Economics, Cognition, and Society)]



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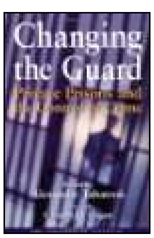

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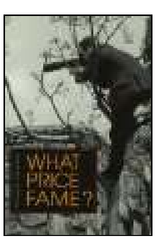

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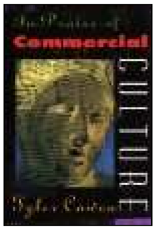

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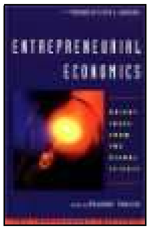

Entrepreneurial Economics: Bright Ideas from the Dismal Science

- **Our Web Pages**
  - Alex Tabarrok's Home Page
  - Alex's TED talk, how ideas trump crises
  - Create Your Own Economy
  - FDAReview.org
  - Tyler Cowen's Personal Web Page
  - Tyler's ethnic dining guide
- **Contact Us**

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- **Blogs We Like**
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  - Bradford DeLong
  - Cafe Hayek
  - Cheep Talk
  - Cherokee Gothic
  - Chris Blattman's blog
  - Confessions of a Supply-Side Liberal
  - Conscience of a Liberal
  - Coordination Problem
  - Econbrowser
  - EconLog, Caplan and Henderson

  - Economist's View
  - Freakonomics
  - Free Exchange
  - Greg Mankiw's blog
  - Literary Saloon
  - Megan McArdle
  - OilPrice
  - Overcoming Bias
  - Rampage, Catherine Rampell
  - Statistical Modeling (Andrew Gelman)
  - The Beacon
  - The Browser
  - The Grumpy Economist, John Cochrane
  - TheMoneyIllusion
  - Vox EU

- **Interesting People and Sites**

  - ArtsJournal
  - Blogging video for Kauffman
  - Bookforum
  - Economic Principals
  - EconTalk
  - MacroDigest

- **Resources**

  - Library of Economics and Liberty
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