

Paul Krugman - New York Times Blog

March 19, 2013, 8:25 am

Cogan, Taylor, and the Confidence Fairy

Ugh. And I say that advisedly. John Cogan and John Taylor have a piece in the Wall Street Journal (where else) arguing that the latest Ryan budget would actually be expansionary, because confidence! It's as if all the experience of recent years, in which the confidence fairy has yet to make an appearance, hasn't happened.

But this is fairly standard; why the ugh?

Partly because the Ryan budget is so obviously ludicrous; it's distressing to see credentialed economists lending support to the thing.

But also because Cogan and Taylor make a basically dishonest claim about the state of research. Reading them, you'd think that anyone who believes that contractionary policy is contractionary is just a simpleton who doesn't know about expectations:

Our assessment is based on a modern macroeconomic model (developed with Volker Wieland of the University of Frankfurt and Maik Wolters of the University of Kiel) whose features include a recognition that the resources to finance government expenditures aren't free—they withdraw resources from the private economy. The model provides for other essential attributes of the economy—that consumers, businesses and workers respond to incentives, and they are influenced by their expectation of future economic conditions when making decisions today. None of these features is provided for in old-style Keynesian models.

Actually, in a depressed economy the resources to finance government expenditures are free, because they would otherwise be unemployed. Mainly, however, the notion that Keynesians don't believe that expectations of future conditions affect decisions today is ... strange. Both old Keynesian and new Keynesian models — like Mike Woodford, whom they appear never to have read — are very much about expectations.

In fact, the only interesting question here is why their results are so different from Woodford's. My guess is that they have slipped in some assumption that won't stand scrutiny, like the notion that the Fed will raise rates even with the economy deeply below capacity. (They've done that before).

Anyway, sad stuff to see, and a disservice to readers.

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