

**Paul Krugman - New York Times Blog**

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### **On Not Seeing the Forest for the Equations**

So, Noah Smith weighs in on the state of macro and argues that there really isn't that much disagreement in the field, because both saltwater and freshwater macro use the same set of techniques. (For newbies: saltwater is the kind of macro practiced at MIT, some of Harvard, Princeton, etc., macro that still finds Keynesian ideas useful and argues that monetary and fiscal policy can be effective; freshwater is Chicago, Minnesota, etc. insisting that business cycles are optimal responses to real shocks).

I think Smith is missing the point here. Alchemists and chemists used similar equipment: retorts, beakers, and so on. That didn't make them the same endeavor. New Keynesians and real business cycle theorists both do lots of intertemporal maximization — that is, they use similar equations to represent consumer and producer behavior. Again, this doesn't make them the same endeavor.

The real test came when the financial crisis struck, and pretty much to a man freshwater economists not only argued against fiscal stimulus — which is a defensible position — but insisted that there was no possible way to justify stimulus, that such ideas had been refuted and that “nobody” believed in them anymore. The only way to understand these claims is to realize that the freshwater types simply didn't accept the legitimacy of what the New Keynesians were doing — in fact, didn't even bother to read any of it, because anyone who actually worked with that kind of model would know that fiscal policy can indeed have an effect in that framework.

I'm not saying that the NK approach is necessarily right; but it's a serious intellectual effort, undertaken by people who thought they were part of an open professional dialogue. Oh, and there's a lot of evidence for the price stickiness that is central to NK models; again, maybe it doesn't mean what the theorists think, but surely that evidence ought to be part of any discussion.

So yes, the equations in one of Mike Woodford's papers look a lot like the equations coming out of Chicago or Minneapolis. And a few years ago it was possible to delude oneself into believing that this represented a true convergence of thought. But recent events have proved that it just wasn't true.