

Paul Krugman - New York Times Blog

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Data, Stimulus, and Human Nature

David Brooks writes about the limitations of Big Data, and makes some good points. But he goes astray, I think, when he touches on a subject near and dear to my own data-driven heart:

For example, we've had huge debates over the best economic stimulus, with mountains of data, and as far as I know not a single major player in this debate has been persuaded by data to switch sides.

Actually, he's not quite right there, as I'll explain in a minute. But it's certainly true that neither stimulus advocates nor hard-line stimulus opponents have changed their positions. The question is, does this say something about the limits of data -- or is it just a commentary on human nature, especially in a highly politicized environment?

For the truth is that there were some clear and very different predictions from each side of the debate -- not about the success of the Obama stimulus, which even advocates like yours truly warned would fall far short, but about interest rates, inflation, and the effects of austerity policies. On these predictions, the data have spoken clearly; the problem is that people don't want to hear.

And really, would you have expected otherwise? It would be lovely to live in a world in which the failure of interest rates to soar as predicted would lead Brian Riedl of Heritage and Niall Ferguson to concede that their anti-stimulus critiques of 2009 were based on a completely wrong model; in which the economic downturns that have followed austerity policies almost everywhere they have been applied would lead Alberto Alesina to concede that his work on expansionary austerity was probably flawed, and lead George Osborne to proclaim publicly that he led Britain down the wrong path. But such things very rarely happen, and the fact that they don't happen has nothing to do with the limitations of data.

Indeed, such things rarely happen even in fields of endeavor that are largely insulated from politics, and in which the ethos is supposed to reward objectivity over ego. Science, Max Planck declared, progresses funeral by funeral. If quantum mechanics needs to rely on mortality to prevail, how much more so must this be true of Keynesian macroeconomics?

That said, if you look at players in the macro debate who would not face huge personal and/or political penalties for admitting that they were wrong, you actually do see data having a considerable impact. Most notably, the IMF has responded to the actual experience of austerity by conceding that it was probably underestimating fiscal multipliers by a factor of about 3.

So yes, it has been disappointing to see so many people sticking to their positions on fiscal policy despite overwhelming evidence that those positions are wrong. But the fault lies not in our data, but in ourselves.

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