GREG MANKIW'S BLOG

Random Observations for Students of Economics

WEDNESDAY, JUNE 15, 2011

A Bit Too Much Gratitude

This caught my eye:

> A 2009 study of the EDA [Economic Development Administration] by the nonpartisan Cato Institute collected numerous government oversight reports and documented widespread abuse of taxpayer dollars. The study noted that Senate Majority Leader Harry Reid is familiar with the EDA process. In 2008, he hand- delivered a $2 million EDA check to the University of Nevada, Las Vegas (UNLV) Research Foundation to begin construction of the "UNLV Harry Reid Research and Technology Park."

As any university fund-raiser can tell you, a "naming opportunity" is a valuable resource. People are willing to pay big bucks to have buildings and other things named after them. In light of this fact, isn't it fair to say that Senator Reid received some nonpecuniary compensation from this recipient of government funding? Why should this transaction be legal when more explicit pecuniary kick-backs are not?

Let me propose that Congress adopt the following rule: No institution receiving government funds should be able to name itself (or any part of itself) after any government official who had a hand in providing those funds.

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MONDAY, JUNE 13, 2011

Parenthood

ABOUT ME

GREG MANKIW
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I am a professor of economics at Harvard University, where I teach introductory economics (ec 10) among other courses. I use this blog to keep in touch with my current and former students. Teachers and students at other schools, as well as others interested in economic issues, are welcome to use this resource.

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- My Harvard Website
- My Favorite Textbooks
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"The economy doesn't make me half as nervous as my kids do."

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SUNDAY, JUNE 12, 2011

A Look at QE2

From the University of Chicago's John Cochrane. An excerpt:

> All QE2 does is to slightly restructure the maturity of U.S. government debt in private hands. Now, of all the stories we've heard to explain our sluggish recovery, how plausible is this one: "Our big problem is the maturity structure of Treasury debt. If only those goofballs at Treasury had issued $600 billion more three-month bills instead of all these five-year notes, unemployment wouldn't be so high. It's a good thing the Fed can undo this tragic mistake." That makes no sense. For the same reason, when money is the same thing as debt, it doesn't cause inflation....
>
> Moreover, QE2 distracts us from the real microeconomic, tax, and regulatory barriers to growth. Unemployment isn't high because the maturity structure of U.S. government debt is a bit too long, nor from any lack of "liquidity" in a banking system with $1.5 trillion extra reserves. Mostly, it is dangerous for the Fed to claim immense power, and for us to trust that power, when it is basically helpless. If Bernanke had admitted to Congress, "there's nothing the Fed can do. You'd better clean this mess up fast," he might have had a much more salutary effect.

My Favorite Textbook: The Next Generation
The Next Step on the Road to Serfdom

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How to Decentralize Monetary

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SATURDAY, JUNE 11, 2011

George Akerlof

A profile of the great economist.

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How to Grow the Economy

Bruce Bartlett takes on Tim Pawlenty.

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THURSDAY, JUNE 09, 2011

Rajan on Monetary Policy

Raghu thinks monetary policy is too easy.

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WEDNESDAY, JUNE 08, 2011

Are emerging and developed economies switching place?

Alan Taylor ponders the question.

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TUESDAY, JUNE 07, 2011

Austan Goolsbee steps down

He is going back to the University of Chicago.

To replace him, can I suggest Jason Furman, my old friend and former student who is now #2 at the NEC?

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MONDAY, JUNE 06, 2011

Policy

On Inequality

How to Recapitalize the Financial System

My Personal Work Incentives

On Dogs, Names, and Boston

How to Identify My Car

My Favorite Textbook: The Next Generation

I am old fashioned: I still like reading books with real paper pages. However, watching my own kids, I know that the next generation is different. My publisher is making my favorite textbook available in a way that will appeal to those more tech-savvy than I am. To learn more, watch the video below, or click here and here for more information.

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The Next Step on the Road to Serfdom

Paul Krugman writes:

> But nobody is proposing that the government deny you the right to have whatever medical care you want *at your own expense*. We're only talking about what medical care will be paid for *by the government*.

I wish that Paul were correct, but I am not convinced that he is. Chills went down my spine a few days ago when I read the following proposal from the Center for American Progress, a think tank with strong ties to the Democratic party:

> Thus we also include a failsafe mechanism that would ensure

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> significant savings. Our failsafe would be triggered if, starting in 2020, total economywide health care expenditures grow at a rate faster than the economy. Should that happen, we would empower the IPAB [the panel of experts set up by President Obama's health care law] to extend successful reforms in Medicare and other public programs to insurance plans offered in the health care exchanges and then potentially to **all health care plans,** such that the target is met. This will ensure that costs are constrained across the health care sector, preventing cost-shifting and maintaining access for all.*

That is, under the likely scenario that healthcare spending keeps rising faster than GDP, the Center for American Progress would give government the power to prohibit people from buying expensive health plans with their own money. That is not my idea of progress.

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*Source: Page 43-44 of this document. I put the crucial phrase in bold.

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Peter Diamond withdraws

MIT economist Peter Diamond is withdrawing his name from nomination to the Federal Reserve, now that it is clear that the Republicans in the Senate will continue to block a vote on the nomination. I am personally saddened by this outcome, as I was when the renomination of Randy Kroszner was similarly blocked by the Democrats a few years back.

Here is Peter's op-ed about the mattter.

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SATURDAY, JUNE 04, 2011

The Demagoguing of Medicare Reform

I have been struck at the heated rhetoric surrounding Paul Ryan's Medicare reform proposal. One thing is not often pointed out: Ryan's proposed "premium support" structure is in some ways similar to the plan put in place under President Obama's healthcare reform law. In both cases, an individual would shop among competing private insurers, on an exchange overseen by the government regulators. In both cases, the government would provide financial support for the "needy" (low-income households in the case of Obamacare, the elderly in the case of Ryancare).

Why don't we see this parallel pointed out more often? The left wants to demonize Ryan, and the right wants to demonize Obama. Pointing out the similarities of their plans might make each of them seem, well, reasonable. The overwrought politics of health care makes it hard to recognize common ground.

By the way, the esteemed health economist Alain Enthoven had a column on the topic of Medicare reform in yesterday's *Wall Street Journal* that is well worth reading.

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FRIDAY, JUNE 03, 2011

The Mistake of 1937

Gauti Eggertsson of the NY Fed examines an historic parallel to our current macro situation,

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Kevin Warsh

An interview with the departing Fed governor.

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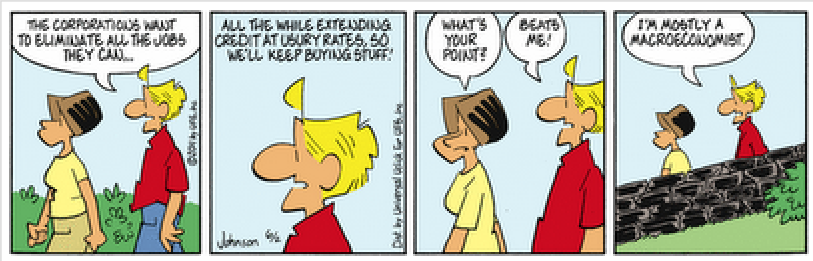
THURSDAY, JUNE 02, 2011

Occupational Hazards



Click on graphic to enlarge.

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Lucas on the Great Recession

Several bloggers have pointed out these slides, based on a talk Nobelist Robert Lucas recently gave. I don't always agree with Lucas, but I almost always find him thoughtful and thought-provoking. This time is no exception.

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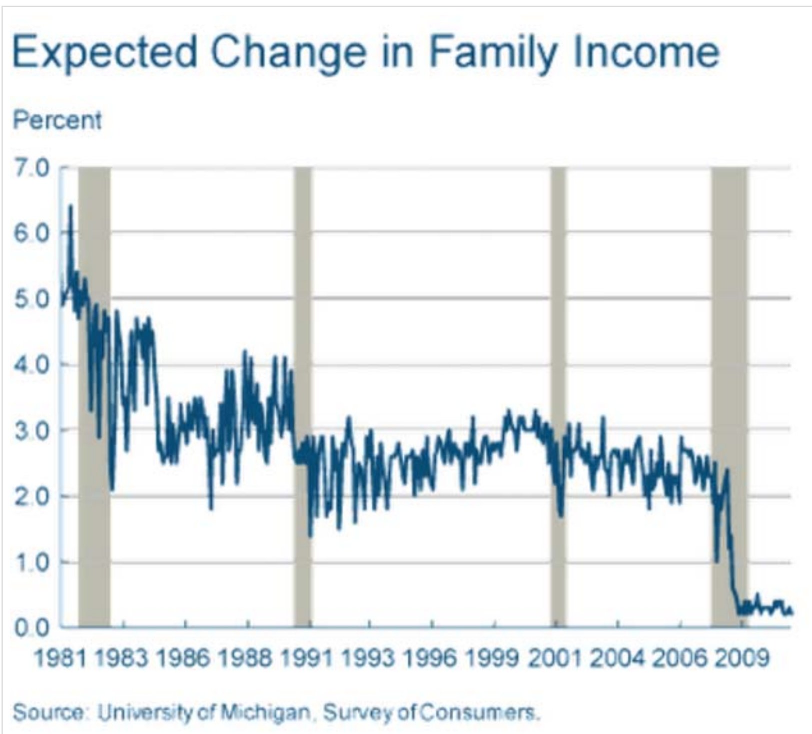
TUESDAY, MAY 31, 2011

Household Expectations

The University of Michigan's Survey of Consumers asks households about their future income prospects. They are asked: "By about what percent do you expect your (family) income to increase during the next 12 months?" Here is the result:



Via the Cleveland Fed. Thanks to Mark Thoma for the pointer.

The level of pessimism displayed here is striking.

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How to Fix the Long-Term Fiscal Problem

A menu of plans, courtesy of the Peterson Foundation.

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FRIDAY, MAY 27, 2011

Advice for the Recently Tenured

From Bob Hall. This is a couple years old, but I only just ran across it. One tidbit from it:

> Potomac fever is contagious and incurable. I know one economist who deliberately hired an undocumented nanny as a commitment device to avoid the temptation of government.

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Feldstein on Greece

Marty suggests a temporary leave from the Euro. How that would work, logistically, is unclear to me. Introduce a new currency, devalue it, then go back to the Euro at the new exchange rate? It seems that Marty is mainly trying to figure out a way to rewrite wage contracts with a new lower level of nominal wages.

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THURSDAY, MAY 26, 2011

Barney & Fannie

Perhaps because Barney Frank is my congressman, I took a special interest in this interview of Gretchen Morgenson, New York Times reporter and coauthor of *Reckless Endangerment: How Outsized Ambition, Greed and Corruption Led to Economic Armageddon*:

> DAVIES: What's fascinating about this story is that you have this entity [Fannie Mae], which you said became the largest and most powerful financial organization in the world, you had this entity, which has government guarantees and government subsidies, although perhaps indirect, but it engages in major political contributions and lobbying expenses. How big a player were they in terms of contributing to politicians and lobbying?
>
> Ms. MORGENSON: They were very large. The numbers might not seem large in today's terms, but they were extremely shrewd and, you know, took great care, especially of the

congressmen that were on the House Financial Services Committee and the senators on the Banking Committee.

They knew that these were very important people to their livelihood and to maintaining the government perquisites as they were.

One of the really big beneficiaries, albeit indirectly, was Congressman Barney Frank of Massachusetts. Back in 1991, when Congress was writing the legislation that would, you know, enhance or improve the oversight of Fannie Mae, or so they thought, Frank actually called up the company and asked them to hire his companion, who had just gotten an MBA from the Amos Tuck School of Business.

Of course the company was happy to provide a job for his companion and rolled out the red carpet in a series of interviews with a variety of executives, and it ultimately did hire the man. And he stayed there for I believe seven years.

So that was an example of the kind of thing that Fannie Mae would do. Now, when I asked Mr. Frank about this, I asked him, did it have any impact on his approach to the company. You know, was it a conflict? Did he feel that it had been a conflicted, put him in a conflicted spot? And he said absolutely not, that he didn't really remember being interested or having much to do with the 1992 legislation.

But the record shows that he was very aggressive and really tough on those who were testifying in Congress about reining in Fannie Mae and Freddie Mac. He was very aggressive to, for instance, the head of the Congressional Budget Office at that time, who was trying to call for increased capital requirements and to call for a focus on safety and soundness at Fannie Mae, that Frank really took him apart in testimony.

DAVIES: Right, and you write there were a number of occasions on which he defended Fannie and their record of promoting home ownership but in the end had a different view of the company, right?

Ms. MORGENSON: Well, after the taxpayers had to take it over, he, you know, came around, finally. But by then it was too late. He said: Well, we should shut them down. But, you know, it really was far too late, and he had been such a vocal supporter for so long that it was sort of an odd turnabout.

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