

Grasping Reality with All Six Feet

The Semi-Daily Journal of Economist J. Bradford DeLong: Fair, Balanced, and Reality-Based, with Hexapodia the Key Insight
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Ten Pieces Worth Reading, Mostly Economics: March 2, 2010

1) [Teresa Nielsen Hayden: The return of the wrong box:](#)

Two law professors, Tom Baker of the University of Pennsylvania and Peter Siegelman of the University of Connecticut, have proposed a way to encourage adults between the ages of 19 and 29 to buy health insurance: bring back the tontine. Someone should tell them that tontines are a plot device masquerading as a financial instrument. This otherwise goofy proposal makes slightly more sense once you realize it was published under the auspices of the Cato ~~Home for Strayed Objectivists~~ Institute. Those guys are so kinky for "market solutions" that they're still pushing for the privatization of Social Security, even after the financial crisis made it clear that their preferred solution would have been a catastrophe. The Invisible Hand of the Marketplace: guaranteed to give you hair on your palms.

Comments on The return of the wrong box: #1 Shinydan Howells: Tom Baker? Really? Because, you know, this is exactly the kind of thing that Four would pull if he could get away with it. #2 Jim Macdonald: The tontine was also one of the random solutions in Murder on the Zinderneuf. #3 Keith Kissler: Are all meetings at the Cato Institute presided over by Tina Turner and involve lots of spiked shoulder pads? Because every libertarian solution that comes out of that place slips straight down the slope into the Thunderdome.

2) [Al Gore: We Can't Wish Away Climate Change:](#)

It would be an enormous relief if the recent attacks on the science of global warming actually indicated that we do not face an unimaginable calamity requiring large-scale, preventive measures to protect human civilization as we know it. Of course, we would still need to deal with the national security risks of our growing dependence on a global oil market.... And we would still trail China in the race to develop smart grids, fast trains, solar power, wind, geothermal and other renewable sources of energy.... But what a burden would be lifted! We would no longer have to worry that our grandchildren would one day look back on us as a criminal generation that had selfishly and blithely ignored clear warnings that their fate was in our hands. We could instead celebrate the naysayers who had doggedly persisted in proving that every major National Academy of Sciences report on climate change had simply made a huge mistake. I, for one, genuinely wish that the climate crisis were an illusion. But unfortunately, the reality of the danger we are courting has not been changed...

3) [Ed Luce: Obama's fiscal stimulus will be felt, says Summers:](#)

The impact of Barack Obama's roughly \$800bn fiscal stimulus has been underestimated and will increasingly be felt over the coming months, says Lawrence Summers, the head of the White House National Economic Council. "It is an enormous achievement ... that with all the projects across the country – weatherisation, medical records, high-speed rail, what have you – that there have been essentially no reports, zero, of corruption, of abuse or of egregious delay," Mr Summers told the Financial Times in a video interview for its View from DC series. Mr Summers argued that the effects of the stimulus had demonstrated the virtues of government in a rebuke to those denying the stimulus has helped stave off a Great Depression. In an interview with the FT last week, Judd Gregg, a senior Republican senator, denied the stimulus had had any positive effect. "For those who think the government can't do anything right, \$400bn of support has been provided [so far] in a remarkably efficient way," said Mr Summers. However, Mr Summers rejected criticisms from some economists that the stimulus had not been large enough. "You have to judge policies in the political context of the moment and I can tell you that the administration pushed the edge of what Congress was prepared to accept," he said. Mr Summers also conceded that US unemployment had been higher than many economists had anticipated. "The question of why employment is so low given the level of GDP is something economists will be studying for years," he said. However, Mr Summers said jobs growth could exceed GDP growth as the recovery gathers pace, although he added: "It's certainly not something I would want to confidently predict ... we're going to have joblessness issues for ... months to come."

4) [Joshua Aizenman and Gurnain Kaur Pasricha: On the ease of overstating the fiscal stimulus in the US, 2008-9:](#)

This note shows that the aggregate fiscal expenditure stimulus in the United States, properly adjusted for the declining fiscal expenditure of the fifty states, was close to zero in 2009. While the Federal government stimulus prevented a net decline in aggregate fiscal expenditure, it did not stimulate the aggregate expenditure above its predicted mean. We discuss the implications of limitations on states' ability to run deficits for the design of fiscal stimulus at the federal level. We devote particular attention to intertemporal moral hazard concerns in a federal fiscal system, and ways to address these concerns.

5) [Matthew Yglesias: Effective Government Matters:](#)

Jonathan Franklin and Jeffrey Smith report from Santiago.... You often see people from the political right promoting the view that even when the case for public sector intervention is sound in the abstract, it nonetheless shouldn't be done because it's impossible to make public institutions work well (see Hirschman's The Rhetoric of Reaction: Perversity, Futility, Jeopardy) but the fact of the matter is that quality of performance varies a great deal and the variation is extremely important. Effective and well-enforced building codes in an earthquake zone can save many lives, and the same is true across an extremely wide swathe of public activities.

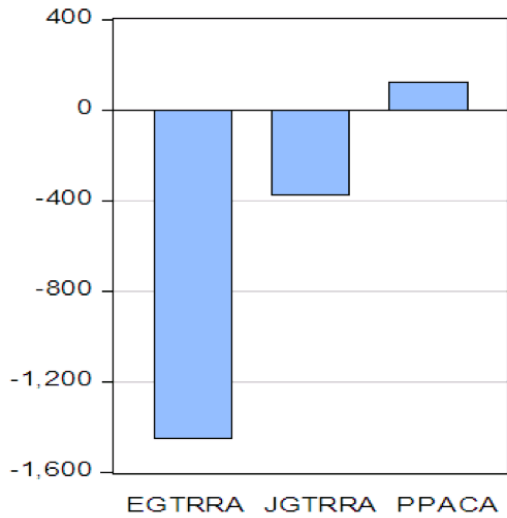
6) [Megan McArdle: On the Atlantic Redesign:](#)

Some of the problems we're having are on the "accidental" level, most notably the RSS feed. Rest assured, we did not wantonly cut you off in an attempt to squeeze every last advertising dollar out of your eyeballs. (She said, metaphorically).... Others are conceptual. We're trying to build a unified site out of the free-form jazz odyssey that I was hired into. That involves making choices. The new channel system makes editorial and technical sense.... But the end result on this page feels like something a lot less bloggy. I've been doing this nearly since the inception of the political blogosphere: I started the predecessor to this blog, Live from the WTC, in November 2001. And I know that a good many of you have been with me the whole time. The new design violates a lot of those conventions and I've heard a lot of angry pushback. Oh, boy, have I heard it.... This blog may never be exactly what you want. Let's be honest: I work for a commercial organization, and in order for them to continue to pay my paycheck, this site needs to be

profitable. So we're going to have ads and other features that may well annoy you from time to time. But you guys are also the lifeblood of the site. It is overwhelmingly important to me that this page continue to work for you. So I guess what I'm saying is, help me help you. User interface design is really hard precisely because there are a lot of you and a few of us. If there are things that aren't working, you can let me know (politely), and I'll either work hard to get them fixed, or tell you why I can't.

7) **GRAPH OF THE DAY:** [Menzie Chinn: What Are These Three Numbers?:](#)

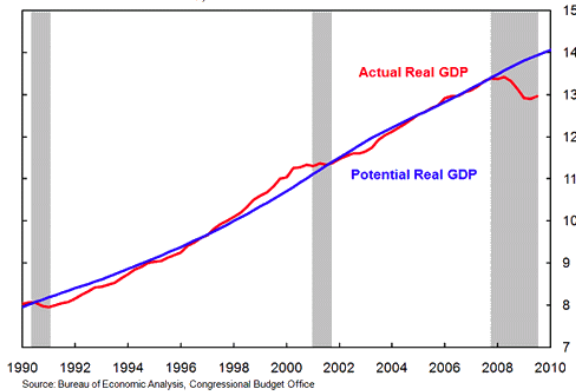
The first bar is the impact on the unified budget balance of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001. The second is the impact on the budget balance of the Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) of 2003. The third bar is the CBO estimated impact on the deficit of the Patient Protection and Affordable Care Act proposed in the Senate on November 19, for 2010-2019.



8) **OTHER GRAPH OF THE DAY:** From Mark Thoma:

The Trillion Dollar Gap

Actual Real GDP versus Potential Real GDP
Trillions of chained 2005\$, SAAR



$(\text{output gap}) / (\text{multiplier}) = (\text{missing stimulus})$

9) **BEST NON-ECONOMICS THING I HAVE READ TODAY:** [The Mudflats: New Palin Poll Numbers in Alaska:](#)

The Alaska GOP's favorite pollster Dave Dittman has come out with some new numbers about our ex-almost-one-term governor. How many of them would like to see her run for President of the United States? What percentage of Alaskans think that the woman who couldn't even survive one term as the governor of half a million people should run the country? It would appear that it's 17%. That would leave 83% of Alaskans who think that's a bad bad idea. BUT, I would submit to you that I know many progressive Alaskans who would love Palin to run for president. Their little eyes get all twinkly, and they look like someone has just asked them if they want a piece of cake. A Palin candidacy, they tell me, assures another four years of a Democratic White House. So, take that 17% with a grain of salt. I was interested in this quote from USA Today:

A new poll of voters in Alaska, where Sarah Palin served as governor, shows them deeply divided about whether they think their ex-chief executive should run for the White House.

Deeply divided? 83% v. 17%? If the election were held today, and Palin ran against someone else for the presidency and the other candidate won in an 83/17 split, I don't think anyone would be describing it as a "deeply divided" nation.

10) **HOISTED FROM THE ARCHIVES:** [DeLong \(September 2009\): The State of Modern Cutting Edge Macro: Narayana Kocherlakota Leaves Me Puzzled:](#)

The very sharp Narayana Kocherlakota on the state of "modern cutting-edge macroeconomics."... Note: Narayana Kocherlakota is a defender of the enterprise. He thinks that everything is more-or-less fine. But, he says, if you ask a modern cutting-edge macroeconomist why we are currently in a deep recession, he will say that he does not know:

Why do we have business cycles? Why do asset prices move around so much?... [M]acroeconomics has little to offer by way of answer to these questions...

He will say that that modern cutting-edge macro builds models that do attribute economic downturns to various causes:

[M]ost models in macroeconomics rely on some form of large quarterly movements in the technological frontier. Some have collective shocks to the marginal utility of leisure. Other models have large quarterly shocks to the depreciation rate in the capital stock (in order to generate high asset price volatilities)...

The models thus tell us that downturns are either the result of a great forgetting of technological and organizational knowledge, a great vacation as workers develop a sudden