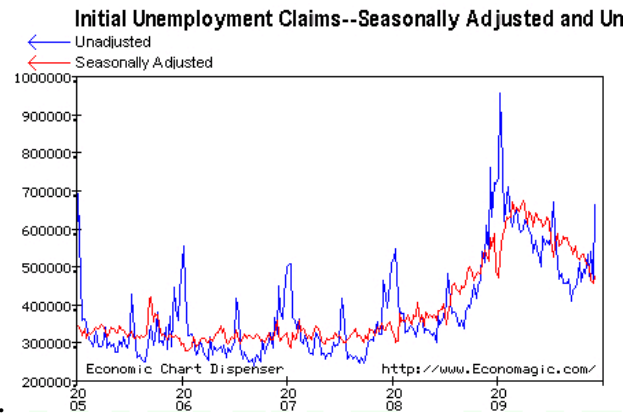
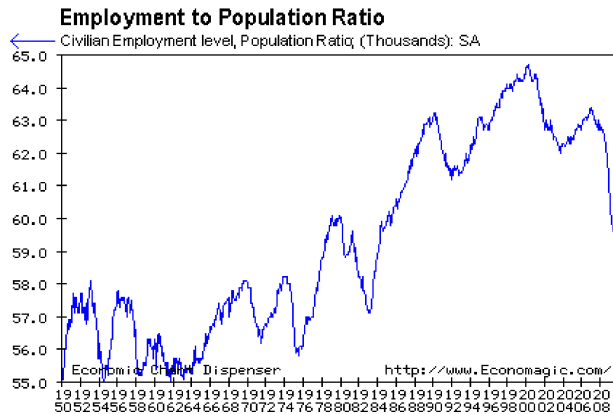


## J. Bradford DeLong's Grasping Reality with a Prehensile Tail

The Semi-Daily Journal of an Economist: A Fair, Balanced, and Reality-Based Look at the World

Department of Economics, U.C. Berkeley #3880, Berkeley, CA 94720-3880; 925 708 0467; delong@econ.berkeley.edu.



[Berkeley Economic History Email Group](#)

[Weblog Archives](#)

[Econ 115: 20th Century Economic History](#)

[Dynamic Blogroll](#)

[Economics Should-Reads](#)

[Political Economy Should-Reads](#)

[Politics and Elections Should-Reads](#)

[Hot on Google Blogsearch](#)

[Hot on Google](#)

[Brad DeLong's Egregious Moderation](#)

**December 14, 2009**

### Ten Economics Paragraphs: December 14, 2009

Worth reading:

1. [Tom Barnett: Chinese turbines, Texas wind farm: "This is just the beginning":](#) U.S. NEWS: "Chinese-Made Turbines Will Fill Texas Wind Farm," by Rebecca Smith, Wall Street Journal, 30 October 2009. "This is becoming a political storm of sorts, as Chuck Schumer is pressuring Energy Secretary Steven Chu to disallow any stimulus money to be used to buy Chinese turbines. China's Export-Import Bank is providing \$1.5B in financing for the West Texas project. The U.S. was the global center for such turbine production in the 1980s, but then it shifted to Europe. Now it sits with China. A Chinese executive says, "This is just the beginning." I think he's right...
2. [Pro-Growth Liberal: Free Trade as a Stimulus Proposal – Little Bang:](#) The Washington Post asks - How much bang would he get for the borrowed bucks? – in reference to the President's latest stimulus proposals. This is an odd place to suggest that freer trade with Colombia and South Korea could represent "truly fresh thinking about job creation". As Paul Krugman notes: "if you liberalize trade countries will export more. But they will also import more. If you're worried about C+I+G+X-M, it's a wash, because X and M rise equally ... Even if the proposed trade deals with Korea and Colombia were remotely big enough to bear mentioning in the context of the crisis – which they aren't – they wouldn't be job creation measures." Using this source, one can see that our exports to these two nations during 2008 were only \$46 billion, while our imports from these two nations were \$61 billion. Let's say the "equally" part of what Krugman wrote isn't quite right and that free trade increases our exports by 20 percent (some \$9 billion) while imports rise by only \$10 billion (some \$6 billion). With GDP in excess of \$14 trillion, even our generous estimate of this WaPo policy proposal has it adding a mere 0.02 percent to aggregate demand. Not exactly a big bang! Do the folks at the Washington Post know how to look up trade information?...
3. [Nate Silver: Greg Mankiw, Stimulus Critic: So Wrong He's Actually Right:](#) So, to summarize: Mankiw is wrong that the stimulus consists mostly of Keynesian-type investments. So far, it has been closer to the tax cut end of the spectrum. But he's also wrong that the stimulus is not working. By the benchmark that he implicitly endorses -- GDP -- it's done very well. Mankiw is so wrong, in other words, that he may actually be right: the stimulus looks a lot like one he might have designed, and it's helping the economy...
4. [Tony Judt: What Is Living and What Is Dead in Social Democracy?:](#) Americans would like things to be better. According to public opinion surveys in recent years, everyone would like their child to have improved life chances at birth. They would prefer it if their wife or daughter had the same odds of surviving maternity as women in other advanced countries. They would appreciate full medical coverage at lower cost, longer life expectancy, better public services, and less crime. When

told that these things are available in Austria, Scandinavia, or the Netherlands, but that they come with higher taxes and an "interventionary" state, many of those same Americans respond: "But that is socialism! We do not want the state interfering in our affairs. And above all, we do not wish to pay more taxes."... [M]y concern tonight is the following: Why is it that here in the United States we have such difficulty even imagining a different sort of society from the one whose dysfunctions and inequalities trouble us so? We appear to have lost the capacity to question the present, much less offer alternatives to it. Why is it so beyond us to conceive of a different set of arrangements to our common advantage? Our shortcoming—forgive the academic jargon—is discursive. We simply do not know how to talk about these things. To understand why this should be the case, some history is in order: as Keynes once observed, "A study of the history of opinion is a necessary preliminary to the emancipation of the mind." For the purposes of mental emancipation this evening, I propose that we take a minute to study the history of a prejudice: the universal contemporary resort to "economism," the invocation of economics in all discussions of public affairs...

5. **Paul Samuelson: Proof that Perfectly Anticipated Prices Fluctuate Randomly:** One should not read too much into the established theorem. It does not prove that actual competitive markets work well. It does not say that speculation is a good thing or that randomness of price changes would be a good thing. It does not prove that anyone who makes money in speculation is ipso facto deserving of the gain or even that he has accomplished something good for society or for anyone but himself. All or none of these may be true, but that would require a different investigation. I have not discussed here where the basic probability distributions are supposed to come from. In whose minds are they ex ante? Is there any ex post validation of them? Are they supposed to belong to the market as a whole? And what does that mean? Are they supposed to belong to the "representative individual" and who is he? Are they some defensible or necessitous compromise of divergent expectation patterns? Do price quotations somehow produce a Pareto-optimal configuration of ex ante subjective probabilities? This paper has not attempted to pronounce on these interesting questions...
6. **Joe Gagnon: The World Needs Further Monetary Ease, Not an Early Exit:** Without additional stimulus, unemployment rates are likely to remain above equilibrium levels for many years at great cost to the world economy in terms of lost income and personal hardship. Moreover, with inflation rates already below desired levels, excess unemployment threatens to cause an unwelcome fall in prices that would further damp recovery and retard the necessary process of deleveraging. In light of high and rising levels of public debt, additional monetary stimulus is preferable to additional fiscal stimulus. Indeed, monetary stimulus reduces the ratio of public debt to GDP by reducing interest expenses, increasing GDP, expanding tax revenues, and enabling an earlier start to fiscal consolidation...
7. **Paul Samuelson: Economics:** Even if the authorities should succeed in forcing down short-term interest rates, they may find it impossible to convince investors that long-term rates will stay low. If by superhuman efforts, they do get interest rates down on high-grade gilt-edged government and private securities, the interest rates charged on more risky new investments financed by mortgage or commercial loans or stock-market flotations may remain sticky. In other words, an expansionary monetary policy may not lower effective interest rates very much but may simply spend itself in making everybody more liquid.... In terms of the quantity theory of money, we may say that the velocity of circulation of money does not remain constant. "You can lead a horse to water, but you can't make him drink." You can force money on the system in exchange for government bonds, its close money substitute; but you can't make the money circulate against new goods and new jobs. You can get some interest rates down, but not all to the same degree. You can tempt businessmen with cheap rates of borrowing, but you can't make them borrow and spend on new investment goods.
8. **Paul Krugman:** Gauthi Eggertsson is in the process of presenting a new paper on fiscal policy; the paper is here. In his presentation — though not in the paper — he offers great phrase: the "paradox of toil." According to his paper, when you're in the liquidity trap, certain kinds of tax cuts have perverse effects. Cutting taxes on capital income, for example, encourages more saving — which is a bad thing, because we're suffering from the paradox of thrift. In fact, reduced taxes on capital income actually end up reducing investment. So what's the paradox of toil? If you cut taxes on labor income, this expands labor supply — which puts downward pressure on wages and leads to expectations of deflation, which increases the real interest rate, which leads to lower output and employment. All of this only applies in a situation of zero interest rates, which wouldn't be interesting except that that's the situation we're in. The general point is that we're really through the looking glass, in a world in which lots of things have perverse effects — and basing your policy ideas on intuition from "normal" times can lead you very much astray...
9. **STUPIDEST THING I HAVE READ TODAY:** **Michael Cannon of the (Surprise! Surprise!) Cato Institute**
10. **FROM THE ARCHIVES: Brad DeLong (March 8, 2008): Does Michael Walzer Really Believe the American Revolution Was Illegitimate?:** I knew that Nino Scalia thinks the American Revolution was illegitimate, sinful and blasphemous, first cousin to Satan's War Against Heaven. But can it be true that Michael Walzer agrees with him? Say it ain't so. But let me turn the mike over to Russell Arben Fox, who cites: '**In Medias Res: Thoughts on Kosovo, Mill, and Walzer:** [In] Jeremy Waldron's review of Walzer's thought that I mentioned above... [Waldron] writes that "political community is the heart of Walzer's writing," and that he believes "communal integrity has a nonrelative claim upon us"; we morally and prudentially ought to, in short, allow all (or almost all) self-identifying communities the space to work out (and deepen, and thereby perhaps through an education in democracy extend) their own identities and claims. What others may see as a clear-cut issue of humanitarian justice (a state oppressing its ethnic minorities, a violence-prone secession movement gaining power), Walzer sees—at least in many cases—as more of the "traditional philosophical dislike for politics." Waldron adds: "Even in the absence of democracy, Walzer wants to hang on to the principle of self-determination. A political community 'is self-determining even if its citizens struggle and fail to establish free institutions, but it has been deprived of self-determination if such institutions are established by an intrusive neighbor'. The compromises that people make, the sacrifices they forgo, may trouble a philosopher.... But 'I don't believe', says Walzer, 'that the opposition of philosophers is a sufficient ground for military invasion'..." The point, of course, is that the victory of the West Atlantic Anglospheric secessionists in their 1775-1783 struggle to depart from the unitary Anglospheric United Kingdom was the work of... THAT INTRUSIVE NEIGHBOR THE FRENCH!!!! Does Walzer really want to commit himself to the slogan: "LAFAYETTE, GO HOME!!!"?

Brad DeLong on December 14, 2009 at 06:17 PM in [Economics](#), [Information: Internet](#) | [Permalink](#)  
[Digg This](#) | [Save to del.icio.us](#) | [Tweet This!](#)

### TrackBack

TrackBack URL for this entry:

<http://www.typepad.com/services/trackback/6a00e551f080038834012876549715970c>

Listed below are links to weblogs that reference [Ten Economics Paragraphs: December 14, 2009](#):

### Comments

christofay said...

# 1 is the most interesting to me considering the saga of Cape Wind where a clique of the American super rich and a coterie of Democratic operatives where able to delay development progress and energy security for a decade by blocking establishing wind turbines in Vineyard Sound off of Cape Cod, Massachusetts.

John Kerry, Reagan Democrat, Massachusetts, was missing in action on this.

Delahunt, Kennedy Fan Boy, Falmouth District, Massachusetts, did major mau mau work abrogating the will of his district citizens.

Heck of a job, Reagan Democrats.

[Reply December 14, 2009 at 07:49 PM](#)

[Ken Houghton](#) said...

#9 is truly amazing. Death delayed is not death denied?

[Reply December 14, 2009 at 08:23 PM](#)

Comment below or sign in with [TypePad](#) [Facebook](#) [Twitter](#) and [more...](#)



Email address is not displayed with comment.

POWERED BY  TypePad

economics DeLong

[Should the Fed Be Doing More?](#)

RGE Monitor (blog) - Nov 20, 2009

This fits with Brad DeLong's definition of quantitative easing: Quantitative easing policy is the altering of market expectations of the long-run path of ...

[Related Articles »](#)

[« Previous](#) [Next »](#)



**Me:**



**Economists:**

- [Paul Krugman](#)
- [Mark Thoma](#)
- [Cowen and Tabarrok](#)
- [Chinn and Hamilton](#)
- [Brad Setser](#)

**Juicebox Mafia:**

- [Ezra Klein](#)
- [Matthew Yglesias](#)
- [Spencer Ackerman](#)
- [Dana Goldstein](#)
- [Dan Froomkin](#)

**Moral Philosophers:**

- [Hilzoy and Friends](#)
- [Crooked Timber of Humanity](#)
- [Mark Kleiman and Friends](#)
- [Eric Rauchway and Friends](#)
- [John Holbo and Friends](#)

