Grasping Reality with Opposable Thumbs

The Semi-Daily Journal of Economist J. Bradford DeLong: A Fair, Balanced, and Reality-Based Look at the World

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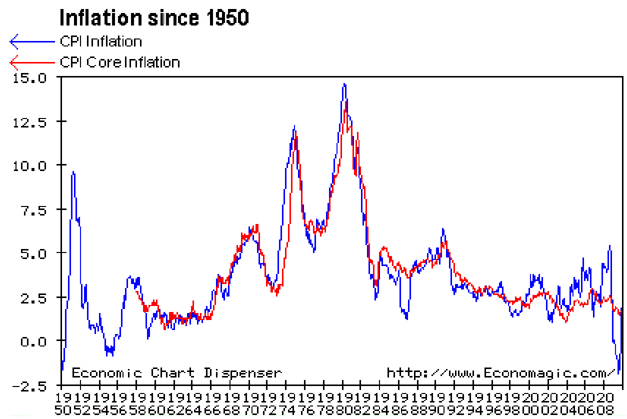

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January 14, 2010

Five Economics Pieces Worth Reading: January 14, 2010

1) Robert Solow: Hedging America:

> I wish [Cassidy] had asked himself an additional question. Why, in the marketplace (sic!) of ideas, have the evangelists for the unrestricted market attracted so much attention and the “realists” so little? He argues, fairly convincingly, that the truth does not lie predominantly on that side of the issue. So is it that believers always make more effective advocates than skeptics do? Are we for some reason more receptive to simple answers than to complex ones? Is it that, in the nature of the case, there is more money backing one side than the other? Perhaps the long postwar prosperity provided good growing conditions for conservative political and economic ideology. If so, it will be interesting to see if the current recession and financial meltdown leave traces in the course of serious economics...

2) Kathy Ruffing, Kris Cox and James R. Horney: The Right Target: Stabilize the Federal Debt:

> A stable debt-to-GDP ratio should be the goal for achieving fiscal sustainability. The “fiscal gap” — defined here as the average amount of program reductions or revenue increases that would be needed every year over the next four decades to stabilize the debt at its 2010 level as a share of the economy — equals 4.9 percent of projected GDP. That is a very large amount. To eliminate that gap would require a 28 percent increase in tax revenues or a 22 percent reduction in program (non-interest) expenditures over the entire 40-year period from now to 2050 (or, more realistically, a combination of tax increases and spending cuts).
>
> It is, of course, both unrealistic and unnecessary to solve the next four decades’ problem all at once. But policymakers should act soon to start stabilizing the debt as a share of the economy in the medium term (i.e., over the next decade). The longer they wait after the economy has recovered, the more painful and severe the budget and tax policy changes ultimately will need to be.

3) **BEST NON-ECONOMICS THING I HAVE READ TODAY:** James Fallows: The Google news: China enters its Bush-Cheney era:

> In terms of information flow into China, this decision probably makes no real difference.... Anybody inside China who really wants to get to Google... can still do so easily, by using a proxy server.... For the vast majority of Chinese users, it's not worth going to that cost or bother, since so much material is still available in Chinese from authorized sites.... In terms of the next stage of China's emergence as a power and dealings with the United States, this event has the potential to make a great deal of difference -- in a negative way, for China. I think of this as the beginning of China's Bush-Cheney era. To put it in perspective:
>
> I have long argued that China's relations with the U.S. are overall positive for both sides... that China is a still-poor, highly-diverse and individualistic country whose development need not "threaten" anyone else and should be encouraged. I still believe all of that.
>
> But... a difficult and unpleasant stage of China-U.S. and China-world relations lies ahead. This is so on the economic front.... It may prove to be so on the environmental front -- that is what the argument over China's role in Copenhagen is about. It is increasingly so on the political-liberties front, as witness Vaclav Havel's denunciation of the recent 11-year prison sentence for the man who is in many ways his Chinese counterpart, Liu Xiaobo. And if... Google has...

concluded that, in effect, it must break diplomatic relations with China because its policies are too repressive and intrusive to make peace with, that is a significant judgment.

Everything in the paragraph above has the similarity of being based directly or indirectly on recent Chinese government decisions...

4) **STUPIDEST THING I HAVE READ TODAY:** Eugene Fama, as interviewed by John Cassidy:

> C: Is it not true that in the credit markets people were getting loans, especially home loans, which they shouldn't have been getting?
>
> F: That was government policy; that was not a failure of the market. The government decided that it wanted to expand home ownership. Fannie Mae and Freddie Mac were instructed to buy lower grade mortgages.
>
> C: But Fannie and Freddie's purchases of subprime mortgages were pretty small compared to the market as a whole, perhaps twenty or thirty per cent.
>
> F: (Laughs) Well, what does it take?
>
> C: Wasn't the subprime mortgage bond business overwhelmingly a private sector phenomenon involving Wall Street firms, other U.S. financial firms, and European banks?
>
> F: Well, (it's easy) to say after the fact that things were wrong. But at the time those buying them didn't think they were wrong. It isn't as if they were naïve investors, or anything. They were all the big institutions—not just in the United States, but around the world. What they got wrong, and I don't know how they could have got it right, was that there was a decline in house prices around the world, not just in the U.S. You can blame subprime mortgages, but if you want to explain the decline in real estate prices you have to explain why they declined in places that didn't have subprime mortgages. It was a global phenomenon. Now, it took subprime down with it, but it took a lot of stuff down with it.
>
> [The pivot from "the government made unwise loans..." to "nobody could have known..." is truly breathtaking.]

5) **HOISTED FROM THE ARCHIVES:** Economics of Contempt (July 2008): The Unofficial List of Pundits/Experts Who Were Wrong on the Housing Bubble:

> The housing bubble has precipitated a severe, and possibly catastprophic, economic crisis, so I thought it would be useful to put together a list of pundits and experts who were dead-wrong on the housing bubble. They were the enablers, and deserve to be held accountable.... Many of the names on the list won't shock anyone, I'm sure. And FWIW, a few of the pundits seemed to deny the existence of the housing bubble simply because Paul Krugman argued that there was a housing bubble, and they absolutely hate Krugman. Unfortunately (for our economy), Krugman was right—again. The list is a work in progress (though I've been reasonably thorough in my research), so feel free to suggest other people who should go on the list. So without further ado, here's the list:
>
> 1. Alan Reynolds, Cato Institute
> 2. Kevin Hassett, American Enterprise Institute
> 3. James K. Glassman, American Enterprise Institute:
> 4. Jude Wanniski, journalist/supply-sider:
> 5. Jerry Bowyer, author of The Bush Boom:
> 6. Nicolas P. Restinas, director, Harvard Joint Center for Housing Studies:
> 7. Jim Cramer, host of CNBC's "Mad Money":
> 8. Christopher Flanagan, head of ABS research, J.P. Morgan:
> 9. Neil Barsky, Alson Capital Partners, LLC:
> 10. Chris Mayer, professor of real estate, Columbia Business School, and Todd Sinai, professor of real estate, Wharton School:
> 11. Jonathan McCarthy, senior economist, New York Fed, and Richard W. Peach, vice president, New York Fed:
> 12. David Malpass, chief economist, Bear Stearns:
> 13. Steve Forbes, CEO, Forbes, Inc.:
> 14. Brian S. Wesbury, chief investment strategist, Claymore Advisors:
> 15. Noel Sheppard, economist, Business & Media Institute:
> 16. Carl Steidtmann, chief economist, Deloitte Research:
> 17. John K. McIlwain, senior resident fellow for housing, Urban Land Institute:
> 18. Margaret Hwang Smith, professor of economics, Pomona College, and Gary Smith, professor of economics, Pomona College:
> 19. Charles Himmelberg, economist, New York Fed (with Columbia professor Chris Mayer and Wharton professor Todd Sinai—see #10, above):
> 20. Jim Jubak, investing columnist, MSN Money:
> 21. James F. Smith, director, Center for Business Forecasting:
> 22. Kathryn Jean Lopez, editor, National Review Online:
> 23. Samuel Lieber, president, Alpine Woods Capital Investors:
> 24. Mark Vitner, senior economist, Wachovia:
> 25. George Karvel, professor of real estate, St. Thomas University

Brad DeLong on January 14, 2010 at 12:36 AM in Economics, Information: Internet | Permalink
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Comments

Herman said...
On The Defender of the Faith:
We really ought to be grateful to Chicago. In these troubled times they provide us with comic relief.

Reply January 14, 2010 at 03:57 AM
ogmb said...
26. John Cochrane, University of Chicago Booth School of Booziness

Most of all, caveat emptor -- these are a matters for buyers and sellers, not regulators. Nobody else gets hurt if you buy a lousy mortgage pool. The government does not need to write a new rule every time someone buys a rotten tomato. Investors will demand the right transparency, complexity, and risk-sharing or monitoring of mortgage pools. That is, unless they get bailed out and learn to count on that instead! The history of the mortgage market is a grand story of bringing credit to people who need it, upon the removal of layer after layer well-intended but counterproductive "protective" regulation. -- John Cochrane, 2007

Reply January 14, 2010 at 06:29 AM
stevecosen said...
Other piece worth reading for emerging countries and the impact of us economic recovery.

http://voxeu.org/index.php?q=node/4482

Reply January 14, 2010 at 06:36 AM
Neal said...
Re No.2

I find macabre humor in how all of the graphs of debt include an inflection point occurring tomorrow. (CBO, CBPP, etc.,)

Yes, tomorrow!!

It's just that tomorrow is as far away as it was yesterday.

No inflection points in sight yet.

Reply January 14, 2010 at 07:38 AM
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