

RAW DEAL Letter criticizing Michael Grunwald *Foreign Policy* Article

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In his article on the 2009 stimulus package ("**Think Again: Obama's New Deal**," September/October 2012), Michael Grunwald argues that the stimulus increased economic growth, contrary to a common view among Americans.

First, he suggests that there is a consensus among economists that the stimulus worked. He fails, however, to mention economists like Robert Barro of Harvard University or John Cochrane of the University of Chicago, whose models show it did not. Instead, Grunwald focuses on economists who predicted that the stimulus would work *before* it was passed and simply used the same models over again to claim it worked *after* it passed, providing little evidence about what actually happened. Grunwald

also cites a *Washington Post* blog post that found, according to Grunwald, that **mine** was the only one of seven "useful" studies to find that the stimulus failed. But he says nothing to challenge my empirical evidence, and the list he cites also omits economists such as Barro and Cochrane.

Second, Grunwald reviews the sequence of events: The stimulus was passed in February 2009, and quarterly data show economic growth turned positive in the second quarter of that year. Timing, of course, does not prove cause and effect, but if you want to argue on the basis of timing you need to look at the monthly data around the time the stimulus funds were first disbursed. Most monthly indicators -- retail sales, exports, new orders for capital goods -- show that the sharp declines ended in December 2008 or January 2009, indicating that the economy was stabilizing before the stimulus was passed.

Third, Grunwald suggests that those who find that the stimulus failed are motivated by political considerations, writing that "before Obama took office, just about everyone agreed" on the Keynesian stimulus idea. But though there has been a resurgence of Keynesian ideas in the past decade, for many years in the 1980s and 1990s there was a near consensus among economists that these short-run stimulus packages did not work -- a view that emerged after implementation of Keynesian ideas in the 1970s produced terrible economic results. And in the **research of mine** that Grunwald mentions, I found that the stimulus passed in 2008 was just as ineffective as the one passed in 200

While Grunwald states his case clearly and concisely, his argument that the stimulus worked has been made before. For three years now, the American people have not bought these arguments, and they have seen that year after year the recovery is slower than the administration has predicted. That's the reason the stimulus is a political as well as an economic failure.

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