Lyndon B. Johnson School of Public Affairs
The University of Texas at Austin
Austin, TX 78712

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The Honorable Alan Krueger
The Honorable Austan Goolbee
The Honorable Christina Romer
The Honorable Laura D'Andrea Tyson

Dear Alan, Austan, Christina and Laura,

I was highly interested to see your letter of yesterday's date to Senator Sanders and Professor Gerald Friedman. I respond here as a former Executive Director of the Joint Economic Committee – the congressional counterpart to the CEA.

You write that you have applied rigor to your analyses of economic proposals by Democrats and Republicans. On reading this sentence I looked to the bottom of the page, to find a reference or link to your rigorous review of Professor Friedman's study. I found nothing there.

You go on to state that Professor Friedman makes "extreme claims" that "cannot be supported by the economic evidence." You object to the projection of "huge beneficial impacts on growth rates, income and employment that exceed even the most grandiose predictions by Republicans about the impact of their tax cut proposals."

Matthew Yglesias makes an important point about your letter:

> "It's noteworthy that the former CEA chairs criticizing Friedman *didn't* bother to run through a detailed explanation of their problems with the paper. To them, the 5.3 percent figure was simply absurd on its face, and it was good enough for them to say so, relying on their authority to generate media coverage."

So, let's first ask whether an economic growth rate, as projected, of 5.3 percent per year is, as you claim, "grandiose." There are not many ambitious experiments in economic policy with which to compare it, so let's go back to the Reagan years. What was the *actual* average real growth rate in 1983, 1984, and 1985, following the enactment of the Reagan tax cuts in 1981? *Just under 5.4 percent*. That's a point of history, like it or not.

You write that "no credible economic research supports economic impacts of these magnitudes." But how did Professor Friedman make his estimates? The answer is in his paper. What Professor Friedman did, was to use the standard impact assumptions and forecasting methods of the mainstream economists and institutions. For example, Professor Friedman starts with a fiscal multiplier of 1.25, and shades it down to the range of 0.8 by the mid 2020s. Is this "not credible"? If that's your claim, it's an indictment of the methods of (for instance) the CBO, the OMB, and the CEA.

To be sure, skepticism about standard forecasting methods is perfectly reasonable. I'm a skeptic myself. My 2014 book *The End of Normal* is all about problems with mainstream forecasting.

In the specific case of this paper, one can quibble with the out-year multipliers, or with the productivity assumptions, or with the presumed impact of a higher minimum wage. One can invoke the trade deficit or the exchange rate. Professor Friedman makes all of these points himself. But those issues are well within mainstream norms.

There is no “magic asterisk,” no strange theory involved here. And the main effect of adjusting the assumptions, which would a perfectly reasonable thing to do, would be to curtail the growth rate after a few years – not at the beginning, when it would matter most.

It is not fair or honest to claim that Professor Friedman's methods are extreme. On the contrary, with respect to forecasting method, they are largely mainstream. Nor is it fair or honest to imply that you have given Professor Friedman's paper a rigorous review. You have not.

What you have done, is to light a fire under Paul Krugman, who is now using his high perch to airily dismiss the Friedman paper as “nonsense.” Paul is an immensely powerful figure, and many people rely on him for careful assessments. It seems clear that he has made no such assessment in this case.

Instead, Paul relies on you to impugn an economist with far less reach, whose work is far more careful, in point of fact, than your casual dismissal of it. He and you also imply that Professor Friedman did his work for an unprofessional motive. But let me point out, in case you missed it, that Professor Friedman is a political supporter of Secretary Clinton. His motives are, on the face of it, not political.

For the record, in case you're curious, I'm not tied to Professor Friedman in any way. But the powerful – such as Paul and yourselves – should be careful where you step.

Let's turn, finally, to the serious question. What does the Friedman paper really show? The answer is quite simple, and the exercise is – while not perfect – almost entirely ordinary.

What the Friedman paper shows, is that under conventional assumptions, *the projected impact of Senator Sanders' proposals stems from their scale and ambition.* When you dare to do big things, big results should be expected. The Sanders program is big, and when you run it through a standard model, you get a big result.

That, by the way, is the lesson of the Reagan era – like it or not. It is a lesson that, among today's political leaders, only Senator Sanders has learned.

Yours,

(Jamie)

James K. Galbraith
Executive Director, Joint Economic Committee, 1981-2