

The debate on banking : Krugman, Keen, etc.

Heterodox Economics Newsletter

[Issue 129 | April 9, 2012](#)

The blogosphere has been abuzz since our last edition. If you missed it, Paul Krugman ignited quite the debate on banking with his blog post "[Minsky and Methodology](#)," which was a response to Steve Keen's criticism of a paper in which Krugman attempted to incorporate debt into the mainstream macro model. After a bit of back and forth, Krugman really caused some fireworks when he stated in this follow-up piece "[Banking Mysticism Continued](#)" that "bank loan officers can't just issue checks out of thin air." This not only generated a [response from Keen](#), but also a lengthy response from Scott Fullwiler on the Naked Capitalism blog [here](#). Apparently Krugman doesn't understand the concept of endogenous money...

Then things turned a bit nastier. In Krugman's [final piece](#) on the subject, he apparently "cherry picked" some quotes from Keen's paper to make it look as if Keen misunderstood Krugman's economics. As you will see in the comments to that last blog post, many posters pointed out Krugman's manipulation of Keen's quotes. Here's one example from reader "JDC":

Prof. Krugman,

Had you continued to read the portion immediately following the bit you quoted, you would have seen the following:

"So economists like Krugman—who describe themselves as “New Keynesians”—have tweaked the base case to derive models that “ape” real-world data, with “sticky” prices rather than perfectly flexible ones, “frictions” that slow down quantity adjustments, and imperfect competition to generate less-than-optimal social outcomes.

"This is Ptolemaic Economics: take a model that is utterly unlike the real world, and which in its pure form can't possibly fit real world data, and then add “imperfections” so that it can appear to do so. "

... In other words, the part you quoted ISN'T him talking about New Keynesians in particular, but neoclassical in general, with the various subsets taking these foundational axioms in different directions. In other words, this entire post is predicated on a regrettable misreading. I hope you take the time to acknowledge this in an edit or future post!

All in all very entertaining. I highly recommend reading the comments from posters as well, as I am sure many of them are from of you, our own readers. Also, if you missed it, the last part of the Remapping Debate on the state of economic education was published since our last newsletter. You can find the link [here](#).