IZJAVA

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Introduction

Recessions, depressions and economic downturns are nothing new. There have been several theories about economic fluctuations developed during the past centuries. While Schumpeter (Schumpeter, 1939) is arguing that business cycles can be predicted, Romer (Romer, 2006a) and Mankiw (Mankiw, 1997) are saying no. Economists disagreed and (probably) will disagree on a range of different issues. There is no doubt, however, that the Great Depression was one of the world’s largest downturns in economic history. It inspired John Maynard Keynes to develop his revolutionary theory. He argued that economy can be recovered by boosting consumer spending. The Great Depression was overcome by several Keynes inspired economic programs and stimulations between 1933 and 1935. Several recessions and economic downturns had occurred since then. There is little doubt that, the relevance of Keynesian economics is being questioned during every economic downturn in the previous century. A result of that is the rather influential works of authors such as Fausto Vicarelli (Vicarelli, 1985) and Paul Krugman (Krugman, 2009). In 2007 a new recession started. Many governments have already adopted fiscal stimulus plans and lowered interest rates as close to zero.

The purpose of the undergraduate thesis is to present John Maynard Keynes’s theory and apply it to recession 2007-2009. The aim is to assess if government intervention is the answer in solving the economy crisis and if it is, to what extent and form this type of policies should be, and currently are, being adopted.

In the first chapter I am presenting some outlines of the Great Depression, due to which critiques of neoclassical economics appeared, and the recession 2007-2009. The second chapter I am beginning with briefly presenting John Maynard Keynes and his critique of neoclassical economics, which is followed by overview of models that are generally accepted as explanatory tool of his theory. The third part is dealing with policies inspired by Keynesian approach and the relevance of Keynesianism when dealing with recovering current economic situation, which is followed by the conclusion.

1 Economic fluctuations

Economic fluctuations are referring to the business cycle, which occur over longer periods and cover periods of economic expansion and economic stagnation. Usually, these fluctuations are measured by the growth rate of real GDP (gross domestic product).

Modern economies often go through significant short-run variations in aggregate output and employment. According to Romer (Romer, 2006a, p. 174) sometimes the employment and output are falling and unemployment is on the rise and sometimes it is the other way around. To understand the causes of these aggregate fluctuations is a central goal of macroeconomics.
According to Austrian economist Joseph Schumpeter (Schumpeter, 1939) there are four stages in a business cycle; expansion, crisis, recession and recovery. Schumpeter also proposed four types of business cycles, which however did not enjoy much support. These four types are called; Kitchin inventory cycle (period of 3 to 5 years), Juglar cycle (period of 7 to 11 years) which is usually taken as the business cycle, Kuznets cycle (period of 15 to 25 years) and Kondratiev wave (period of 45 to 60 years) which is sometimes as well referred to as long technological cycle.

Mankiw (Mankiw, 1997, p. 274) claims that economic fluctuations are a continuous problem for fiscal and monetary policy makers. Mankiw also states that the real GDP average growth rate is about 3% annually. Nevertheless, growth is not constant. Recessions, periods of income downturns and rise of unemployment, are rather common. During the recession in 1990, the real GDP fell for 2,2% and unemployment rose for 7,7%. Shorter workweeks, higher amount of part-time jobs and fewer working over-hours are another characteristic of the recession. Even though the name “business cycle” is suggesting that the fluctuations are predictable, this is not so. An important fact is that the fluctuations do not follow any regular, cyclical or constant pattern.

A second important fact according to Romer (Romer, 2006a, p. 174) is that fluctuations are distributed very unevenly over the components of output. Table 1 is showing average shares of each component in total output and the average shares when the output is declining, relatively to its normal growth.

### Table 1: Behaviour of components of GDP during recession

<table>
<thead>
<tr>
<th>Components of GDP</th>
<th>Average share in GDP (%)</th>
<th>Average share in fall in GDP in recessions relative to normal growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CONSUMPTION</td>
<td></td>
<td></td>
</tr>
<tr>
<td>durables</td>
<td>8,5</td>
<td>15,1</td>
</tr>
<tr>
<td>nondurables</td>
<td>25,4</td>
<td>10,3</td>
</tr>
<tr>
<td>services</td>
<td>30,4</td>
<td>9,5</td>
</tr>
<tr>
<td>INVESTMENT</td>
<td></td>
<td></td>
</tr>
<tr>
<td>residential</td>
<td>4,8</td>
<td>10,7</td>
</tr>
<tr>
<td>fixed nonresidential inventories</td>
<td>10,6</td>
<td>20,3</td>
</tr>
<tr>
<td>NET EXPORTS</td>
<td>-0,6</td>
<td>-11,4</td>
</tr>
<tr>
<td>GOVERNMENT PURCHASES</td>
<td>20,3</td>
<td>3,8</td>
</tr>
</tbody>
</table>

Source: D. Romer, Advance Macroeconomics, 2006a, p. 176.

Consumption of durable goods, residential investment (housing/real estate) and fixed business investment all show disproportional shares, while the rest of the components (consumption of
nondurable goods and services, government purchases and net exports) remain relatively stable. The third characteristic of fluctuations is about asymmetries. On one hand output does not vary much around its mean; however there are asymmetries regarding time periods of its rise and fall. Output is usually characterized by longer periods of being slightly above average and shorter periods when it falls far below (Romer, 2006a, p. 177).

Table 2 shows the behavior of some of the important macroeconomic variables during recessions. Employment falls and unemployment rises and in addition, as mentioned by Mankiw (Mankiw, 1997, p. 436) the length of the average workweek falls, which consequently slows down the economy through the decline in productivity. The decline in employment is usually relatively small compared to the decline in output. The relationship between movements in output and unemployment is known as Okun’s law. According to Okun (Okun, 1962) when GDP falls for 3% relative to normal growth, unemployment rises for 1 percentage-point. Hence, Romer (Romer, 2006a, p. 178) argues that nowadays a more accurate relationship would be 2 to 1.

Table 2: Behaviour of some important variables during recessions

<table>
<thead>
<tr>
<th>Variable</th>
<th>Average change during recessions</th>
</tr>
</thead>
<tbody>
<tr>
<td>REAL GDP (%)</td>
<td>-3,9</td>
</tr>
<tr>
<td>EMPLOYMENT (%)</td>
<td>-2,8</td>
</tr>
<tr>
<td>UNEMPLOYMENT RATE (percentage points)</td>
<td>1,6</td>
</tr>
<tr>
<td>INFLATION (GDP deflator; percentage points)</td>
<td>-0,1</td>
</tr>
<tr>
<td>NOMINAL INTEREST RATE ON 3-MONTH TREASURY BILLS (percentage points)</td>
<td>-1,5</td>
</tr>
</tbody>
</table>

Source: D. Romer, Advance Macroeconomics, 2006a, p. 178.

Romer (Romer, 2006a, p. 177) argues that the output movements during the Great Depression and World War II overcome any other fluctuations before or since. Real GDP in the United States fell by 27% between 1929 and 1933, with an estimated unemployment of about 25% in 1933. Until World War II, output was rising at about 10% annually and finally dropped by 13% in 1944 and 1947. Unemployment rose from 1,2% in 1944 to 3,9% in 1947.

1.1 Great Depression

What caused the Great Depression was the question that Keynes dealt with at most. Even nowadays there are many debates involving the economy breakdown of the 1920s.

According to many of the leading economists, the reason behind the Great Depression was definitely not just one. It was a combination of the factors regarding domestic and worldwide
conditions that led to such an economic downturn and eventually reaching depression. Hence, there is no agreement in defining the exact and precise list of all causes. Historians and economists however do agree upon some of the factors and those appear in most of the textbooks. The Great Depression did not only affect the United States, it spread worldwide.

The majority of the authors agree that the reason behind the Great Depression lies in the decline of consumption of goods and services. The reason why the consumption started to fall comes from two directions; the first blames it on the Stock Market Crash of 1929 and the second discusses declines in investment in real estates. The Stock Market Crash of 1929 is also named Wall Street Crash of 1929 or Black Tuesday (often accompanied by Black Monday and Black Thursday, since the breakdown did not happen in one day). The crash followed a speculative boom in the late 1920s when many Americans invested in stock markets. Many of those were borrowing money to finance their investments and buy more stocks. Prices were rising and more people were attracted to invest. All were still expecting the prices to move up, which created an economic bubble. On October 24th, 1929 the market turned down and sudden selling started. Decline in wealth combined with the decline in consumer confidence led to increased consumer savings and decline in consumption of durable goods. Some of the economists argue that the volume of investments in real estate in 1920s was too large, which eventually resulted in drastic fall of real estate demand. One of the reasons behind it, could also be the fall of immigration in 1930 and slower growth of population, leading to, lower demand for housing (Mankiw, 1997).

Once The Great Depression began in its real meaning, consumption was slowed down by other factors as well. Some of these factors were the breakdown of the financial system, inefficient fiscal policy, increased taxes in 1932, decreased government purchases and consequently higher rate of unemployment.

President Franklin Delano Roosevelt implemented a complex package of several economic programs and stimulations between 1933 and 1935 with the intention to recover the economic situation. He reformed the banking system, introduced agriculture programs and implemented several economic acts. Roosevelt opened many public works with the intention to reduce unemployment. Mankiw (Mankiw, 1997, p. 275) states that the supply of money decreased for 25% during the years 1929 to 1933 and the unemployment increased from 3,2% to 25,5%. Economists such as Milton Friedman and Anna Schwartz argue that the decrease in money supply was the main reason for the economic crisis. On the other hand there are economists who reject this theory due to two reasons; the first being the fact that the money balances did not decrease together with money supply (as it is necessary for the LM curve to move) and the second being the problem of interest rates, which should rise but were held constant during the years 1929 to 1933). On the other hand, due to the constant interest rates the problem of deflation began (Mankiw, 1997).

A lot of influential literature, that was published after the Great Depression and was dealing with what was going to happen to The United States in the postwar period, was devoting
attention to John Maynard Keynes’s idea of “secular stagnation”. In Keynesian view, depression could become the norm in modern capitalism since 1929 and federal intervention was needed in order to keep unemployment from decreasing to such low levels. The problem according to Keynesians, was not in the private industry not investing enough in the economy, the problem was that there has been a lack of investments in keeping the employment on high levels. Keynes was saying that central banks should keep monetary policy flexible enough, that a larger part of the aggregate production would be able to move into consumption. With a degree of monopoly control and constantly increased labor efficiency, some organizations could enjoy profits, also during major crisis. Harris (Harris, 1947) is questioning the length of this act and claiming that at least some Keynesians, perhaps even Keynes himself, believed that this had become a permanent state of capitalism after the Great Depression in 1929 (Harris, 1947).

Harvard University economist Robert Barro defines »depression« as a decline in consumption of more than 10% and puts the odds of a depression at about 20%. There is a rather narrow line when recession turns into depression and Lahart states that this happens when unemployment rate increases over 10% and stays there for several years (Lahart, 2009).

Many compare the Great Depression to what is currently happening to the world. According to Lahart (Lahart, 2009) the recession that started in 2007 is the biggest financial shock since 1929 and that the odds of a depression are less than 50-50, however this is still uncomfortably high. Albeit there are certain similarities between the current recession and The Great Depression, the 21st century looks very different from 80 years ago. Lahart argues that when comparing the job losses and economic output this recession resembles the economy crisis of 1929. The lines in the following figure (figure 1) are demonstrating how each indicator moved some months before the beginning of each recession and how it continued once each crisis started. It is measured in the percentage of the level of that same indicator at the beginning of the recession. GDP is measured at a seasonally adjusted annual rate; employment levels consist of nonagricultural jobs and exclude military services. Consumer prices are consumer price indexes (CPI) (Lahart, 2009).
The current recession is not at depression levels, unemployment in February 2009 was at 8.1% and is not near the 25% that were reached during Great Depression in the early 1930s. Lahart recalls that the last time the idea of depression was questioned seriously was in the early 1980s when the unemployment increased to over 10% and remained there for about 10 months (Lahart, 2009).

1.2 Recession 2007-2009

National Bureau of Economic Research (NBER) states that the recession started in late 2007 in the United States and in 2008 it spread globally. The origins lie in the financial crisis that began due to lending practices and distribution of mortgage debt in The United States. A combination of risky sub-prime loans, eventual losses and the increased asset prices created bank panic in inter-bank lending. Credits were easily acquired for rather long period and with an eventual drop in real estate prices banks suffered enormous losses, some European and United States banks even went bankrupt. Once the housing prices dropped, owners held mortgage debt that was higher than the actual value of the property. The already problematic financial situation was worsening by increased oil and food prices. Another problematic factor was the high inflation in early 2008, as Reuters reported (Krugman, 2009).

1.2.1 Real GDP

The National Bureau of Economic Research (NBER) defines recession as “significant decline in economic activity lasting more than few months”. Many economists however define it as two or more consecutive quarters of negative GDP growth. The shaded areas in figure 2 are indicating the U.S. recessions since the postwar period (1947) until year 2009. The curve is demonstrating constant and rather long periods of economic growth and short periods when
GDP temporarily declined. Figure 3 is demonstrating the decline in output since the current recession started.

Figure 2: U.S. Real Gross Domestic Product


Figure 3 shows the movements of real GDP in the United States in period from the beginning of the year 2007 and until the beginning of the year 2009. The shaded areas indicate the period of U.S. recession that started in December 2007. Once the recession started, the real GDP was at about 11,640 billions of chained 2000 dollars. The curve demonstrates slow

1.2.2 Unemployment

Recession is characterized not only by decline in GDP, but by increased unemployment as well. Figure 4 is demonstrating fluctuations in employment in the past decade.

According to Bureau of Labor Statistics’ Economic Situation Press Release the unemployment rate continues to rise, increasing from 8,9% to 9,4% in May 2009. Job losses continued in manufacturing, however they moderately stopped in construction and several service providing industries. Since the recession started in December 2007, the unemployment rate has increased for 4,5 percentage points.

1.2.3 Consumer spending

Consumer spending represents about 70% of GDP. Figure 5 indicates a rather steady growth at slightly over 5% annually. Disposable income, that did not reach 5% annual growth, has resulted in decreased consumption. According to studies of U.S. Department of Commerce, the consumption of services and non-durable goods slowed down considerably. Figure 5 also demonstrates the overall decline in personal consumption once entering the shaded area (recession) in 2007 and continued decline towards year 2010. In February 2008, the New York-based Conference Board reported the lowest level of consumer confidence since 2003.
1.2.4 Financial markets

The first troubles appeared during June and July 2007 for Bearn Stearns hedge fund. In March 2008 it collapsed and was followed by Lehman in September 2008. Together with Northern Rock, Landesbank Sachsen is one of the best known sufferers of current financial crisis. Even though market-based and regulatory solutions have been implemented over the past 2 years, the already increased risk remains on the financial markets. Leading economists are defining the main causes of financial crisis in the housing bubble and easily acquired credits, increasing the amount of sub-prime lending, over-leveraging, commodity bubble and financial complexity.

Richardson (Richardson, 2009) is discussing the case of financial institutions crisis. Financial institutions suffered major crisis and one of the first victims was the medium-sized British bank, Northern Rock. In mid September 2007 it asked for liquidity support from Bank of England, which was followed by the “bank run” (long queues of clients that wanted to withdraw their savings). Initially only the organizations close connected to real estate and mortgage lending were at most affected. Many of the institutions, like Lehman Brothers, Fannie Mae and Freddy Mac, were taken over or nationalized (Foley, 2008).

Timothy Geithner and Paul Krugman (Krugman, 2009) explain the role of non-bank financial institutions (“shadow banking system” or “shadow financial system”) in comparison to traditional commercial banking. Non-bank financial institutions had an increased role in lending money to organizations over the past few years, however the system collapsed when
they were not able to provide funds to mortgage firms. As a consequence one third of U.S. lending mechanism was frozen, states Gelinas (Gelinas, 2009).

1.2.5 Political stability

Treasury Secretary during The Great Depression, Andrew Mellon’s prescription for solving the economic situation was »liquidate labor, liquidate stocks, liquidate the farmers, liquidate real estates«. Today governments are responding far differently from the early 1930s. Governments around the world are today implementing stimulus packages, direct intervention in financial institutions and regulatory reforms. Countries like Great Britain in the era of Great Depression were strong, politically stable and yet suffered major economic crisis. Nowadays, it is possible to define more risk deriving from politically rather instable countries. According to Bremman (Bremman, 2009) there are three broad types of fat tail risks in the current environment. The first being geopolitical risk as a traditional form that derives from international conflicts. Political leaders are being too focused towards economic problems that political questions are being neglected (for example the situation regarding Iraq, terrorism in Afghanistan and Pakistan, U.S.-Mexico border tensions, conflict between Israel and Iran). Secondly, Washington is playing a major role in dealing with the economic situation of the U.S. Stimulus packages are decided upon and sent from Washington, therefore it is in their hands what the economic future of the U.S. is going to be. Similarly it happened all over the world, economic power has shifted from the “economic capital” to the capital of the country and political factors gained importance in economy. The third risk is coming from the fact, that recession has worsened welfare conditions. Much more attention will be focused towards the consequences of the recession than to recession itself. Worse economic conditions are presenting a risk to U.S. national security (Lahart, 2009 & Bremman, 2009).

2 John Maynard Keynes and his theory

John Maynard Keynes was without any doubt one of the greatest economist of all time and these days he is enjoying a comeback. The British economist developed a theory that meant a revolution in economic theory. He claimed that increasing the government deficit will stimulate economy and turn it from downturns. The basic starting point was in asking how rational people behave under conditions of uncertainty. His conclusions were derived from the concept of money. When everyone saw money as a means of payment, he saw it as a »store of value«. The main hypothesis was based on the question; why should anyone »hold« money. The result was the well known »liquidity preference theory« (Harrod, 1952).

2.1 John Maynard Keynes

John Maynard Keynes (1.6.1883 – 21.4.1946) was a British economist, whose ideas meant a revolution in modern economic theory. He was schooled in Great Britain, at Eton, where he showed exquisite knowledge in mathematics, classical studies and history. He continued his education at Cambridge where he studied mathematics. Influenced by Alfred Marshall, he
showed great interest in economics. In 1905 he graduated in mathematics. Those who knew him, described him as an exceptionally intelligent person. He was interested in many different fields, such as literature (he collected books and carried collection of essays by Isaac Newton), he kept a large collection of artistic pieces from Degas, Modigliani, Picasso and others, was a successful investor and successfully built a private fund. His career started rising, when he became an adviser to the British financial department, from 1915 to 1919 (during World War I), followed by the attendance at Versailles Peace Conference in 1919. His analyses were presented in rather influential work “The Economic Consequences of the Peace” published in 1919. He argued that the volume of war damage that Germany had to pay after World War I was too large and would destroy the German economy, moreover it would cause conflicts all over Europe. His predictions came true when Germany suffered hyperinflation in 1923 and only a part of the war damage was ever paid (Harrod, 1952).

*The General Theory of Employment, Interest and Money*, published in 1936, meant a revolution in economic theory and was the start of modern macroeconomics. As a theorist and author Keynes had many drawbacks and his theory is not very homogenous. In the majority of contemporary textbooks it is presented with analytical models such as IS-LM model that was developed by Hicks in his work »Mr. Keynes and the Classics« (Hicks, 1937). The standard model is characterized by rigid wages, liquidity trap and constant capital-output ratio. Standard Hicks’s income-expenditure model is presented in sense of what The General Theory should mean and include. The fact is that Keynes’s theory is quite different from Keynesian income-expenditure theory. The development of Keynesian tradition was in the United States much more focused towards income-expenditure model. This process did not improve, extend and interpret Keynes’s theory, but eventually drift away from Keynes’s contributions. The key step was when Hicks’s model was fully recognized as an interpretative and explanatory tool. (Leijonhufvud, 1986)

### 2.2 Critique of neoclassical theory

During the 1930s many critiques of neoclassical economics, which were mainly based on perfect competition market, full employment and Say’s law, appeared. The most influential one was definitely Keynes’s theory of effective demand that was based on an entirely new approach to economics. Keynes denied Say’s law that was fundamental to classical economics.

Say’s Law says, that aggregate supply creates its own demand. Keynes’ analysis, in contrast, advocates effective demand, infinitive range of equally possible equilibrium values. According to Keynes (Keynes, 1936), the theory of effective demand is based on the following points: income depends on employment in given situation of technique, resources and costs, consumption is defined by the level of aggregate income, therefore by level of employment and the level of employment is based on the expected level of consumption and
new investments. Hence, the volume of employment in equilibrium depends on aggregate supply, propensity to consume and the volume of investment (Keynes, 1936).

According to Davidson (Davidson, 1984, p. 561), Keynes believed that he could prove why Say’s Law is not entirely accurate. Keynes rejected three major axioms; (a) the axiom of gross substitution, (b) the axiom of reals and (c) the axiom of ergodic economic world. His General Theory offers a new set of analytical framework and illustrates the differences from Say’s law.

(a) According to Keynes, the aggregate supply connects entrepreneurs sales expectations and the level of employment (e.g. higher expected sales lead to hiring more workers, thus, higher employment). Aggregate demand is showing the relationship between the level of employment and consumer spending (e.g. the higher the level of employment, the higher consumer spending). The intersection of aggregate supply and demand defines effective demand and employment equilibrium. In Say’s law world however, aggregate supply is creating its own demand and there is no obstacle to full employment. Keynes denied the neoclassical theory assumption that flexible prices of production factors can automatically establish full employment. He argued that there is such a thing as involuntary unemployment. Entrepreneurs will only hire workers until the price of produced asset is higher than expected returns. At a full employment level, there is a lack of effective demand, hence, all of the output cannot be profitably sold. Keynes’s effective demand requires spending being only constrained by liquidity and/or timidity considerations. A budget constraint does not necessarily limits individual spending. Following Say’s law logic, involuntary unemployment might occur in case of all income earned with the production of goods and services, is not spent on those produced assets. This is the assumption that if price of x will rise, people will eventually start substituting it with relatively cheaper y. Though, according to Keynes’s analysis, assets produced by labor can be used to store savings, however are not gross substitutes for producible assets in savers’ portfolios (Davidson, 1984, pp. 563-569 & Sušjan, 2006, pp. 206-207)

(b) According to Davidson (Davidson, 1984, pp. 569-571) Keynes believed that decisions about future investments are based only on expected investment profitability and cost of borrowing money to finances these investments (interest rate). He believed that money has a real short-run and long-run impact, while interest rate is only a monetary phenomenon. According to Classical theory this is exactly the reverse and says that firms are only concerned about “real things” (e.g. goods and services). Keynes saw money as “store of value” and the possibility to purchase in the future. Entrepreneurs, not to be limited by actual income, can borrow money to finance their investments. The amount of money, agents would want to hold (as liquid asset) depends on interest rates and national income. Keynes argued that money affects motives and decisions in circumstances of uncertainty in short and long run. The firms’ objective is to, over a certain time period, end up with more profit, using (liquidating) working capital.
Production decisions are therefore affected by nominal values. Sušjan (Sušjan, 2006, p. 210) explains three different motives in holding money; transaction (daily needs), speculative (to earn profit on anticipated drop in asset prices) and precautionary (to meet unexpected future outlays).

(c) »Precision conveys the meaning of sharpness to minute detail. Accuracy, on the other hand, means care to obtain conformity with fact or truth« (Davidson, 1984, p. 572). Keynes rejected the axiom of ergodicity, which permits the economists to act like they would be dealing with »precise« instead of »accurate« data. He claimed that the historical data from economic time series realizations does not provide data (because of excluded uncertainty factor), with which it would be possible to predict the economic future (Davidson, 1984, pp. 571-572).

After World War 2, many attempts were made in bringing together Keynes’s and neoclassical theory. Paul Samuelson combined Keynes’s macroeconomics and Marshall’s (neoclassical) microeconomics in neoclassical synthesis. He won a Nobel Prize with the book “Economics” that was published in 1948. The issue was that Keynes developed his theory as a critique to neoclassical approach, therefore the harmonization of both, was according to many economists unfeasible. Joan Robinson argued that, either Marshall’s microeconomic foundations are right and Keynes’s theory is not needed as Says’s law is correct or, there is something wrong with neoclassical microeconomics. Since the majority of neoclassical economist, after the World War 2, continued to believe that neoclassical microeconomics are correct another approach to Keynesianism begin to rise. Neoclassical Keynesianism in general relied on Keynes’s conclusions that were more focused on economic policy (Sušjan, 2006, pp. 216-217).

### 2.3 Keynesian models

The content of Keynes’s theory and microeconomic foundation is best interpreted with the so called “Keynesian models”. I am beginning this part with presenting the tools that are accepted as standard tools in explaining Keynes’ theory.

Keynesian models of fluctuations are based on the assumption that there are barriers to the instantaneous adjustment of nominal prices and wages, which is, according to Romer (Romer, 2006a, p. 271) central to Keynesian models.

Senjur (Senjur, 2001, p. 257) divides the possible analysis of aggregate demand on three different models. The AS-AD (aggregate supply, aggregate demand) model is a model dealing with aggregate demand, aggregate supply equilibrium and explains the output and price level. The second model is called Keynesian cross and is showing the aggregate expenditure curve. Last mentioned is IS-LM (Investment/Savings, Liquidity preference/Money supply) model and shows the relationship between interest rate and real output (connects the money market with goods and services market).
2.3.1 AS-AD

The AS-AD model uses aggregate supply function and aggregate demand function to explain and illustrate the relationship between the price level and output at a given money supply, fiscal policy and capital. The link that is fundamental to Keynesian economics is the link between inflation (changes in price) and unemployment, known as Phillips curve.

The AD curve is determined by the expenditures at different price levels (all other factors held constant). The AS curve is determined by the production and sales at different price levels (all other factors held constant). The intersection establishes at a price level where consumers will purchase all goods and services produced (Samuelson & Nordhaus, 2004, p. 383).

![Figure 5: AS-AD diagram](Image)


The AS-AD intersection illustrates the price level and output equilibrium (point E). The diagram demonstrates how increased money supply results in a higher price level and how improved effectiveness results in higher output and a lower price level.

2.3.2 Keynesian cross

The Keynesian cross diagram illustrates the aggregate demand curve, predisposed with customers’ spending that rises with the rise of their disposable income, the latter increases with national output. Consumption and disposable income are therefore connected by a positive relationship (Samuelson & Nordhaus, 2004, p. 415).

The intersection (point A) on figure 7 shows the expenditure equilibrium level of income for given interest rate. Changes in income, interest rate, government purchases or/and taxes, can shift the consumption function up and down the 45-degree line. The multiplier effect says that
the amount of output that is needed to fall to balance the consumption is greater than the amount that consumption falls at a given output (Romer, 2006a, pp. 225-226).

Figure 6: Keynesian cross

2.3.3 IS-LM

The IS-LM model was developed by John Hicks (Hicks, 1937) as an attempt to mathematically summarize Keynes’s General Theory. It is a macroeconomic model that illustrates a general equilibrium on both; monetary market and the goods and services market. On the goods and services market, the IS curve, shows the relationship between interest rates and real output. On the monetary market, the LM curve shows the relationship between willingness to hold money (depending on interest rate) and money supply (determined by banks and central banks).

Source: D. Romer, Advance Macroeconomics, 2006a, p. 225.\footnote{1}

\footnote{1} Romer uses the letter E when marking the aggregate demand (AD) and the letter Y when marking the output on the figure.

\footnote{2} In Hicks's paper (Hick, 1937) the LM curve is referred to as LL curve.
The IS-LM intersection on figure 8 illustrates the equilibrium interest rate and equilibrium income. Real money supply assumes the connection with liquidity preference theory. The savings and investment function is determining the IS curve. There is only one intersectional point where both markets are in equilibrium. It means that the goods and services produced equal goods and services demanded. The IS-LM model shows that at a given interest rate, the real income and employment are determined by effective demand. Figure 9 is illustrating an example of how both curves can be influenced by monetary and fiscal policy (Senjur, 2001, p. 283).
Expansionary monetary policy affects and moves the LM curve downwards, with lowering interest rates and increasing money supply, which results in larger output. Monetary policy has its full effect when the LM curve is vertical (which means that the money is not responding to changes in interest rate) or the IS curve is horizontal. The more the LM curve is horizontal the smaller is the effect of monetary policy on the output. Expansionary fiscal policy, on the other hand, affects IS curve and moves it upwards with increased government purchases and lower taxation, which again results in larger output. Fiscal policy is the most effective when the LM curve is horizontal or the IS curve is vertical.

3 Keynesian economics

Economic policy inspired by Keynes’ theory, is a set of actions based on the idea that the public sector is not always leading to efficient macroeconomic outcomes, therefore the government should intervene on the market. Davidson (Davidson, 1984, p. 562) says that the difficulties are in applying theory to practice and getting the policies right. This message is just as relevant today as it was in Keynes’s time.

According to Oser and Brue (Oser & Brue, 1988, pp. 412-414) there are some major characteristics and principles of Keynesian economics;

- Macroeconomic emphasis; Keynes was focusing more on aggregate determinants than on individual economic subjects.
- Demand orientation; he mostly argued the importance of aggregate demand and its impact on output. Effective demand establishes the economy’s equilibrium and consists of consumption, investment, government and net export expenditures. Every amount of money spent on goods and services means an equal amount of income to production factors.
- Instability in the economy; according to Keynes, economy environment is characterized by fluctuations (booms and busts). The economy is not stable, because of changing planned investment spending, which has a multiplier effect on the output. Investment spending is characterized by the interest rate and marginal efficiency of capital. Keynes saw a serious problem in excessive savings. He defined savings as an excess of income over consumption. The definition of savings equaled the definition of current investment which he defined as the current addition to the value of the capital, which was gained due to productivity of the certain period. Following this logic, investment decreases due to excessive savings. The latter might be caused by several reasons, such as decline in consumer confidence and pessimistic expectations. Keynes argued that short-run interest rates are determined by money supply and demand and not purely by investments and savings. Due to excessive savings, supply of available money to borrow increases and interest rates start to fall. The “liquidity trap” theory advocates the existence of a limit under which, the interest rate cannot fall. The fear of capital losses appears with the expectations of increased interest rate,
due to which bond-holders wish to hold liquid assets. For that reason, monetary policy should adjust interest rates, if not recession can be expected to do so.

- Wage and price rigidity; downward price rigidity is assumed due to factors such as union contracts, minimum wage laws and implicit contracts. Declines in effective demand first result in output and employment drops, rather than in wage and price declines.
- Active fiscal and monetary policy; Keynesian economics advocates government intervention on the market, through combinations of fiscal and monetary policy adjustments, to promote full employment, price stability and economic growth. Keynes (Keynes, 1936) argued that the supply is not able to create its own demand during economic downturns, therefore governments should intervene.

3.1 Fiscal and monetary policy

Fiscal and monetary policies are two different approaches in using certain instruments in order to stabilize the economy. Keynesian theory suggests the solution to depression in expansionary fiscal policy (e.g. investments in infrastructure) and expansionary monetary policy (e.g. lowering the interest rates) (Romer, 2006b).

Fiscal policy is mainly trying to stimulate the economy with moderating government spending and taxation. The aim of fiscal policy, according to Chick (Chick, 1983, p. 327) is to stimulate the production by increased demand. The magnitude and the extent to which increased demand affects the output and employment, however, depends on the particular circumstances the economy is facing. In order to raise employment it is necessary to raise effective demand, which can be done by shifting the propensity to consume or by shifting investment. Increased consumption can be achieved by redistribution of income. Increased investment can be done by lowering the interest rates or improve the profit expectations (Chick, 1983, p. 318).

The fundamental difference between Keynesian and monetarist study lies in their view on monetary policy. Monetary policy is trying to stimulate the economy with using tools such as interest rates and money supply. According to Keynes (Keynes, 1936, p. 298) the primary influence that money supply has on the effective demand depends on its influence on the interest rate. Lower interest rate results in increased investment, output and employment. The obstacle in this kind of economic policy is the “liquidity trap”, which states that any increase in money supply does not lower the interest rate. Once interest rate is already as low as ever, setting it even lower will not have any real effect. The liquidity trap can be overcome by expansionary fiscal policy (increased government purchases or tax reduction) (Sušjan, 2006, p. 211). Keynes also distinguished between the changes of interest rate that occur due to changes in the money supply and those which are due to changes in expectation affecting the liquidity function itself. Open-market operations may affect both (Keynes, 1936, pp. 196-197).
To continue with the relevance of Keynesian economics today, I believe it is essential to recall, which the characteristics of the problem were, that Keynes was dealing with: high unemployment for a rather long period, lack of investments from the entrepreneurs’ side, great excess of capacity yet the economy generally undercapitalized (Chick, 1983, p. 317).

3.2 **Is Keynesian economics relevant today?**

Due to the financial crisis that started in 2007, current economic policy is being questioned by many. Josef Ackermann, CEO at “Deutsche Bank” said that he does not believe in free market regulations anymore. His opinion is shared by many economists. Robert Shiller, James K. Galbraith, Paul Krugman, Robert Reich, Joseph Stiglitz, Greg Mankiw, are just few of those who believe that Keynes is today again more relevant than ever. President Barack Obama’s administration is consisting of economists of Keynesian school (ex. Lawrence Summers, Timothy E. Geither and Christina Romer). The U.S., however, is not the only one in trying to apply Keynesian approach to the current economic situation. China was one of the first countries that tried to solve the crisis with excessive fiscal stimulus. The first signs of recovery have been reported in February 2009, by Financial Times.

The rise of Keynesianism, on the other hand, has raised a lot of critique. Historian and economist Thomas Woods argues that the origins of today’s crisis are actually in government intervention. He claims that Keynesian policy causes inflation and drives consumer to increased savings. Jeffrey A. Miron, professor at Harvard University, says that the increased government purchases in 2008 were a mistake and that the government should lower the taxes instead.

Japan tried to follow Keynes’ inspired politics once faced financial crisis in the 1990s, however did not succeed. The problem was in business firms which at first could not and later would not borrow finance to invest. The Bank of Japan kept interest rates close to zero, but it did not make any real effect on economic growth. Once the credit system crashes, low interest rate policy does not compensate for insufficient demand. In the situation of both, Japan and the Great Depression, the fact is that a credit crash cannot be reversed and there are some long-term consequences. Monetary policy can only affect the price level and Fed has kept the interest rate as close to zero for quite a long period now. This strategy did not show any real results in the United States. Leijonhufvud (Leijonhufvud, 2008) is arguing that monetary policy and moreover the whole macro theory should be re-examined. Future returns, according to modern financial theories, are assumed to be normally distributed and empowered by rational expectations theories. Due to all financial crises in the past decade and all failures of attempts in solving those crises an alternative theory has been introduced. The New Keynesians theory includes wage rigidity and a new set of sources of short-term adjustment problems in the economy (Leijonhufvud, 2004).

According to Leijonhufvud (Leijonhufvud, 2008) the situation today is almost the opposite of what Keynes was dealing with in the General Theory. Keynes argued that the cause of the
Great Depression originated from a declining trend in the return on investment since the end of World War I. The current financial crisis however was a combination of monetary mistakes that led to inflation combined with a general weakening of credit quality. Keynes’ earlier works on financial crises are more relevant today than the General Theory itself. In his “Treatise on Money”, he assumes that a decline in expected future revenues from present capital accumulation, disturbs an initial equilibrium. Consequently firms reduce investment, which reduces direct funds to the repayment of credit and bank loans decline. Banks decide not to re-lend these funds in order to improve their own reserves. It is possible to relate that to the situation that led to the financial crisis in 2007, when the amount of non-bank financial institutions increased greatly due to increased money demand. Keynes’ theory becomes relevant in the context of general deleveraging as a part of business downturn (Leijonhufvud, 2008).

Although I firmly believe that Keynesian approach is currently more relevant than any other and essential in recovering the economy, I agree with Leijonhufvud (Leijonhufvud, 2008), who says that the answer is not in just adopting Keynes’ theory; the answer is in how to apply it to modern situation. According to Krugman (Krugman, 2008) the current economy crisis would be partly solved by encouraging the Keynesians fiscal policy.

3.2.1 Fiscal stimulus plans

Mankiw (Mankiw, 2008) argues that the problem that we are facing today is the source of effective demand that is not visible. Many economies all over the world have engaged in several stimulus plans to improve the current economic conditions. They have used different strategies of government purchases and taxation combinations. According to Krugman (Krugman, 2009, p. 184) the majority of these strategies are based on Keynesian ideas, that governments are able to stimulate the economy with replacing lack of demand with government spending. The U.S. passed a $168 billion package of tax cuts and rebates in 2008. In 2009 president Obama approved a $787 billion economic stimulus package intended to increase employment. Krugman (Krugman, 2009, pp. 185-188) claims that the amount relatively to the U.S. GDP will not have its full effect, as it is not high enough. In February 2009, Shiller and Akerlof published a book, called Animal Spirits: How Human Psychology Drives the Economy and Why it Matters for Global Capitalism, where they also argue that the U.S. stimulus plan is not large enough to recover the credit crisis.

3.2.2 Monetary policy during recession 2007-2009

Considerable amount of current debates has been focused to negative interest rates. Mankiw (Mankiw, 2009) wrote in his article for New York Times, that there is no theoretical obstacle in setting interest rates under zero. He believes that central banks should consider the idea of stimulating the demand, with setting negative interest rates. Moreover, he states that Keynes himself, has applauded the idea of the German economist Silvio Gesell about taxes on holding money, that would have the same effect as setting interest rates under zero. The ideas of
negative interest rates are, however, denying the existence of Keynes’s liquidity trap. Since this kind of ideas are rather radical, Mankiw is offering another solution that has a similar effect. Negative interest rates could be reached by increased inflation. Although Mankiw is not alone, these debates have provoked many negative responses. Robert Hall and Susan Woodward (Hall & Woodward, 2009), Aaron Edlin and Dwight Jaffee (Edlin & Jaffee, 2009), and Scott Sumner (Sumner, 2009) are all keen on the idea of negative interest rates. Albeit central banks in practice cannot set interest rates under zero, they should follow unconventional monetary policy that would have the same effect. Even Fed (Guha, 2009) is reporting that the ideal interest rate is at -5%. Fed’s analysis was based on Taylor’s rule approach, taking unemployment and inflation into consideration.

Once the economy started to slow down and troubles on the credit markets appeared, Fed stepped in and took several actions to prevent recession. The primary tool, was to cut Federal Fund rates. In September 2007 it cut it from 5.25% to 4.75%, the process continued until reaching between 0% and 0.25% in December 2008. It soon became clear that the economy was not responding the way it should. Next step was to involve in open market operations, that keep the Federal Reserve’s balance sheet at high level, support financial markets to function and stimulate the economy. Over the next few quarters Fed announced that it will purchase large volume of agency debts and mortgage-backed securities to help the mortgage and housing markets. Fed is planning to continue to explore ways of using the balance sheet to recover the credit markets and economy. The fact is that neither the standard Keynesian policies nor the recent monetary policy provides perfect solution. The theoretical framework should be revised and applied to the situation where the macroeconomic policy would address the problems with the private sector’s capital.

**Conclusion**

I started my undergraduate thesis with presenting certain data and events from the Great Depression that had impact on the development of Keynesianism. The overview of Keynes’s theory is the core element of the thesis, as I believe it’s essential in analyzing the impact that it has on current global economy crisis. Many influential economists of our time are comparing the Great Depression with the current recession 2007-2009. There are some similarities, but many differences as well. There is no doubt that (not only) the largest world economies have adopted expansionary fiscal and monetary policies and that Keynes is as relevant as ever. The issues appear in questioning for how long the central banks and the government should boost consumer spending as a stabilizer. Romer (Romer, 2006a, p. 559) says that the U.S. federal government has run large budget deficits since the 1980s, together with many others industrialized economies and argues that these large budget deficits should not go on too long, as they can cause a crisis and reduce growth. I would say that the limits should revolve around inflationary pressures. Another limit that should be considered is, once the economy turns upwards, consumers’ expectations might eventually become more pessimistic in expecting a new downturn.
I think an interesting concept is in asking ourselves, how Keynes would act and think in contemporary environment. Joseph Stiglitz (Stiglitz, 2009) argues that he would say to take our social and environmental responsibility seriously. Boosting the economy by investing in infrastructure is usually seen as investing in building of roads and bridges, however what the world needs, is increased investments to respond the challenges of global warming. The economy could be boosted by changing the transportation patterns to more environmental friendly (Stiglitz, 2009).

The issue, which is in my opinion being underestimated by many, is the lack of integration that derives from the complexity of global economy and politics and its relationship to national economy and politics. The idea originates from Krugman (Krugman, 2009) critique of economy crises of previous century, that economic policy is usually too nationally focused. On one hand, there are national politics and economy taken as closed, but on the other hand, nowadays each economy is being affected by foreign ones. Economic fluctuations of larger economies are affecting not only the country itself but foreign countries as well. The U.S. recession has spread globally. I believe that as a consequence of such global integration, national politics should be adapt to take actions, not only considering national economic situation, but looking at the picture from global perspective, regardless of what economic policy is being adopted. There are some institutions that act on a global level, like IMF (International Monetary Fund), WTO (World Trade Organization), European Union institutional framework and group G-8, however, there is no global or international economic policy.

I agree with Krugman (2009), when he says that governments should be more prepared for the worst case scenario even before the economy starts to slow down. I believe that Keynes was never entirely understood and probably will never be, yet, staying open-minded, paying enough attention to the economy and taking responsibilities for our own actions in time, might just keep us out of troubles and not leading us to long-term “bad” economic policies.
Povzetek


Ekonomska nihanja

Največji izziv sodobnim makroekonomistom predstavlja nepredvidljivost ekonomskih nihanj, ki se pojavljajo skozi daljše obdobja in obsegajo vzpone, vrhove, padce in krize gospodarstva. Kljub temu, da je avstrijski ekonomist Josep Schumpeter (Schumpeter, 1954) opredelil štiri tipe poslovnih ciklov, glede na dolžino njihovega trajanja, večina sodobnih ekonomistov, kot na primer Mankiw (Mankiw, 1997) in Romer (Romer, 2006a), menita da le teh ni mogoče predvideti ali opredeliti. Mankiw dodaja, da nihanja ne sledijo nobenemu cikličnemu ali konstatnemu vzorcu. Spremembe v gospodarstvu so navadno analizirane z vidika sprememb stopnje rasti realnega bruto domačega proizvoda.

Velika Depresija brez dvoma predstavlja največji padec gospodarstva prejšnjega stoletja. Romer (Romer, 2006a) navaja, da je realni BDP (bruto domači proizvod) v ZDA med leti 1929 in 1933 padel za 27% in stopnja nezaposlenost v istem obdobju narasla na približno 25%. Mnogo ekonomistov primerja Veliko Depresijo z današnjo recesijo. Kljub temu, da obstajajo določene podobnosti, obstaja tudi veliko razlik. Urad za ekonomske analize v ZDA poroča, da je realni BDP v prvem četrtrletju leta 2009 padel za približno 5,5%, stopnja brezposelnosti pa se je maja 2009 dvignila na približno 9,4%.

V obdobju velike gospodarske krize, pa se je začelo ugibati na račun primernosti takratne ekonomske politike in ekonomske teorije nasploh.

John Maynard Keynes in keynesianska ekonomika


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Ko se je večina sveta, v tridesetih letih začela soočati z veliko gospodarsko krizo, so se razvile nove ekonomske teorije, ki so nastale predvsem kot kritika neoklasične ekonomije. Izhajale so iz kritike popolne konkurence, popolne zaposlenosti in Sayevega zakona. Keynesova teorija efektivnega povpraševanja je ponujala popolnoma nov pristop k ekonomski znanosti. Keynes je negiral Sayev zakon, ki je bil osnovno izhodišče klasičnih ekonomistov.

Sayev zakon pravi, da agregatna ponudba sama ustvarja svoje povpraševanje, Keynes pa je zagovarjal efektivno povpraševanje, ki dovoljuje neskončno število ravnotežnih možnosti. Keynes (Keynes, 1936) pravi, da je efektivno povpraševanje odvisno predvsem od:

- dohodka, ki je odvisen od zaposlenosti in v danih okoliščinah dane tehnologije, resursov in stroškov,
- potrošnje, ki jo določa agregatni dohodek, torej stopnja zaposlenosti,
- stopnje zaposlenosti ki pa je odvisna od pričakovane potrošnje in novih investicij.

Keynes se ni strinjal z trditvijo klasičnih ekonomistov, ki pravi, da ni nobene obstaja ovire do polne zaposlenosti. Menil je, da obstaja neprostovoljna nezaposlenost, ki nastane zaradi premajhnega efektivnega povpraševanja pri stopnji polne zaposlenosti (Davidson, 1984, str. 563).


Tretja kritika pa se nanaša na metodološki pristop k ekonomiji. Klasični ekonomisti so se po Keynesovem mnenju preveč zanašali na idejo, da je obnašanje ekonomskih subjektov predvidljivo. Keynes je trdil, da samo zgodovinski podatki niso zadostni, da bi bilo mogoče predvideti prihodnost. Ta “nezadostnost” izvira iz dejstva, da se v verjenostni račun ne da vključiti faktorja negotovosti s katerim se srečujejo ekonomski subjekti (Davidson, 1984; Sušjan, 2006, str. 212).

**Keynesianski modeli**

Keynesianski modeli, predstavljajo skupok orodij namenjenih razlagi in analizi Keynesove teorije. Romer (Romer, 2006a, str. 271) trdi, da je rigidnost cen in plač osnovna predpostavka teh modelov. Senjur (Senjur, 2001, str. 257) navaja tri različne modele, ki omogočajo analizo agregatnega povpraševanja;

- **Prvi model** je model AS-AD (agregatna ponudba – agregatno povpraševanje), ki uporablja funkciji agregatnega povpraševanja in agregatne ponudbe za prikaz razmerja med cenami in outputom pri dani ponudbi denarja, fiskalni politiki in kapitalu. Povezava, ki je temeljnega pomena za keynesiansko ekonomijo je Phillipsova krivulja, ki kaže razmerje med inflacijo in nezaposlenostjo.

**Keynesianska ekonomska politika**

Keynes se je v obdobju Velike Depresije soočal s problemi visoke nezaposlenosti (ki se je vlekla skozi precej dolgo doboje), pomanjkanjem investicij in velikimi kapitalskimi zmožnostmi, ki pa niso bile učinkovite (Chick, 1983, str. 317). Trdil je, da javni sektor ni zmožen sam dosegati učinkovitega makroekonomskega stanja, torej mora država posegati na trg. Oser in Brue (Oser & Brue, 1988, p. 412-414) navajata ključne značilnosti keynesianske ekonomije;
• Keynes je veliko več pozornosti posvečal agregatnim determinantam, kot pa individualnim ekonomskim subjektom,
• bil je osredotočen na agregatno povpraševanje,
• potrjeval je nestabilnost gospodarskega okolja, ki je zaznamovano z gospodarskimi “boomi” in recesijami,
• poudarjal je rigidnost cen in plač in zagovarjal aktivno fiskalno in monetarno politiko.

Keynesianska ekonomska politika zagoverja kombinacije ekspanzivne monetarne in ekspanzivne fiskalne politike in na tak način zagotavlja polno zaposlenost, stabilnost cen in gospodarsko rast. Kot orodje za spodbujanje gospodarske rasti, fiskalna politika uporablja državne izdatke in davke, monetarna politika pa obrestne mere in ponudbo denarja.

Relevantnost Keynesove teorije danes


Veliko diskusij pa se je pred kratkim začelo vrteti okrog ideje o negotivni obrestni meri. Mankiw (Mankiw, 2009) je v članku za New York Times zapisal, da ni nobene teoretične ovire, ki bi preprečila postavitev obrestne mere pod ničlo. Glede na to, da je obrestna mera v ZDA že tako blizu 0% in nima pravega učinka, Mankiw verjame, da bi morale centralne banke premisliti o postavitvi obrestne mere na negotivno stran. Ideja naj bi imela podoben učinek kot ideja Silvia Gesella, nemškega ekonomista, ki je predlagal obdavčitev prihrankov in katero je podpiral Keynes sam. Kljub temu, da centralne banke ne določijo negotivne obrestne mere, bi morale slediti nekonvencionalni monetarni politiki, ki bi imela podoben
učinek. Zvezne rezerve (Fed) poročajo, da bi bila idealna obrestna mera -5% (Guha, 2009). Analiza je temeljila na pristopu Taylorjevega pravila, ki je upošteval nezaposlenost in inflacijo.

**Sklep**

Svojo diplomsko delo sem začela s predstavitvijo ekonomskih nihanj na primeru Velike Depresije in današnje gospodarske krize. Velika Depresija je bila brez dvoma ključnega pomena za razvoj Keynesove teorije, kar je glavni element diplomskega dela. Verjamem, da je teoretska podlaga, potrebna za nadaljno analiziranje in razumevanje pomena, ki ga ima keynesianska teorija pri odločitvah, ki jih sprejemajo vlade danes, da bi stimulirale gospodarstvo in se rešile najhujših posledic, ki bi jih lahko povzročila recesija.

Brez dvoma lahko trdim, da največja (in ne samo ta) svetovna gospodarstva sledijo ekspanzivnim monetarnim in fiskalnim politikam in da je Keynes ponovno zelo aktualen. Problem se pojavlja, pri določanju časovnega obdobja skozi katerega, naj bi države umetno spodbujale potrošnjo. Romer (Romer, 2006) pravi, da povečanje državnih izdatkov ne bi smelo trajati predolgo, saj ima lahko nasproten učinek in povzroči krizo ter upočasni gospodarsko rast.

Joseph Stiglitz (2009) pravi, da bi danes Keynes zagovarjal spodbujanje gospodarstva z investiranjem predvsem v okolju prijazno infrastrukturo, in razvoju načinov transporta in življenja nasploh, ki bi preprečevali nadaljnjo globalno segrevanje.


Strinjam se s Krugmanovo (2009) trditvijo, da bi morale biti vlade veliko bolj pripravljene na najslabši možni izid, še preden se gospodarska rast začne upoštevati. Menim, da Keynes nikoli ni bil povsem razumljen in verjetno nikoli ne bo. Da bi preprečili vođenje dolgoročno neprimernih ekonomskih politik, se moremo zavedati lastnih napak, biti pripravljeni na nekonvencionalne pristope in posvečati dovolj pozornosti gospodarskim nihanjem.
Literature and sources


