Discussion of "Reconciling Hayek's and Keynes' views of recessions" by Beaudry, Galizia & Portier

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Hayek vs. Keynes

- Two contrasting view of recessions

- Keynes:
    - Deficient aggregate demand
    - Gains from trade not exploited
    - $\Rightarrow$ We need stimulus!

- Hayek:
    - Over-accumulation of capital (or H, D)
    - Need to liquidate excesses
    - Intervention inefficient

HAYEK VS. KEYNES

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- Third view? Lucas/Prescott (and Farmer!)

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- ...but the liquidation process led to insufficient demand?
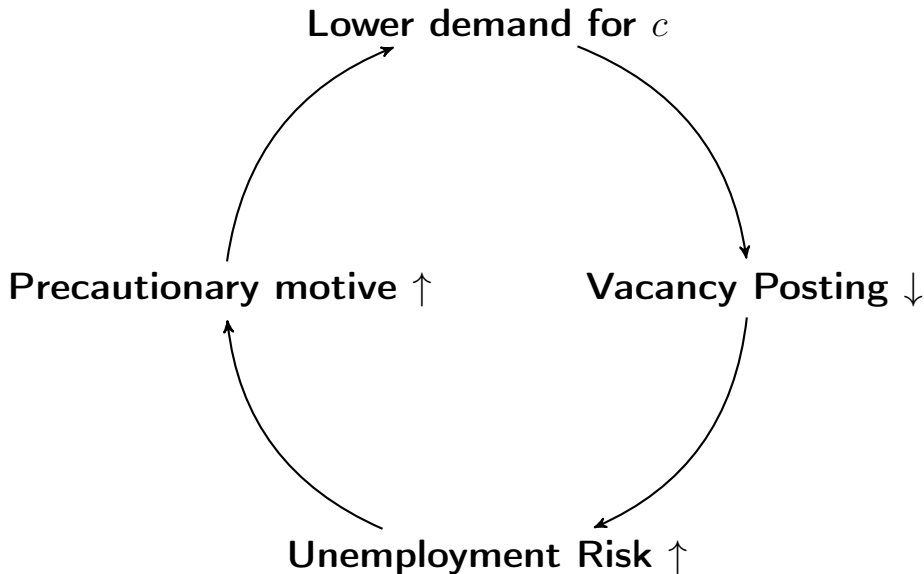
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- Key ingredients:
  - Frictional labor market
  - Precautionary savings motive

THE MECHANISM: X IS "TOO HIGH"

Lower demand for c

Precautionary motive $\uparrow$

Vacancy Posting $\downarrow$

Unemployment Risk $\uparrow$

Big Picture Thougts

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- Simple policy message: G or UI

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  ...But:

- Is this the "right" model of (great) recessions?

- Policy measures how big? how long?

- Supply-side policies?

- How did we get here in the first place?

Model vs Great Recession

- Model story: over accumulation of X, call it housing
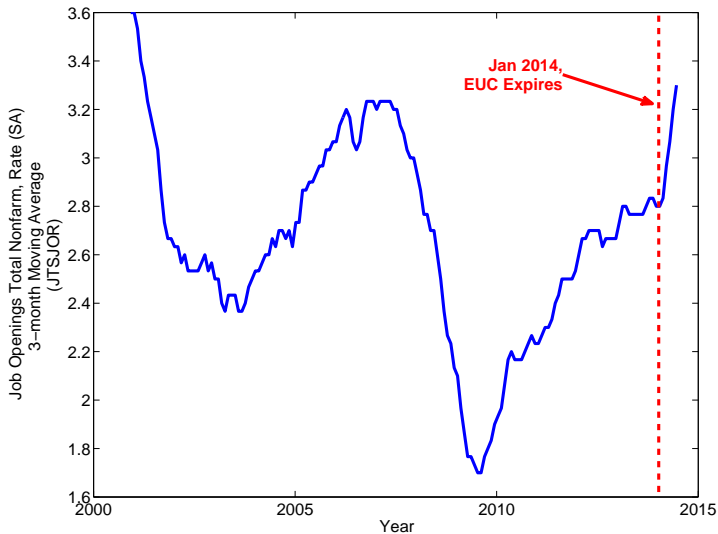- Data (US): huge construction boom ✓

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- Data (Mian-Sufi): housing wealth $\uparrow \Rightarrow c \uparrow$ ×

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- Data (Mian-Sufi): housing wealth $\uparrow \Rightarrow c \uparrow$ $\times$

- Model story: UI can fix deficient demand

- Data: UI benefit duration quadrupled $\times? \checkmark?$

- In 2008 did households decide to consume less because they had *too much* housing wealth?

- If housing is complementary with non-durable consumption, with higher H, would want higher c... example with durable/non-durable in the paper has separable

POLICY INTERVENTIONS: UI

UI Benefit extensions end and the labor maket...takes off!

OTHER POLICIES

- Vacancy subsidies Φ

- Tax X! (Surico & Trezzi: c doesn't fall!)

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- Aside:
  - Model admits multiple equilibria
  - Policies that select equilibria or rule out bad ones?

How did we get here?

Knowing how we got to over accumulation might also be key for understanding the policy response. Further, can some policy responses make us *more likely* to end up here?