

Keynesians to the Rescue: Unprecedented Policy Responses Towards Unprecedented Macroeconomic Shocks (Evidence from Three Natural Experiments)

Lille Post-Keynesian Conference
December 6-8, 2023

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Dec 6, 2023

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Introduction

Research Background

- Inspired by a series of columns from Barry Eichengreen and Kevin O'Rourke in Vox.eu which shattered readership records in 2009 (*A Tale of Two Depressions*) started on Apr 6, 2009
- Inspired by a column by Paul Krugman in New York Times (*The Great Recession versus the Great Depression*) published on Mar 20, 2009
- Inspired by an article in New York Times (*Rapid Declines in Manufacturing Spread Global Anxiety*) published on Mar 20, 2009

Part I. Fiscal and monetary responses to three major macroeconomic shocks

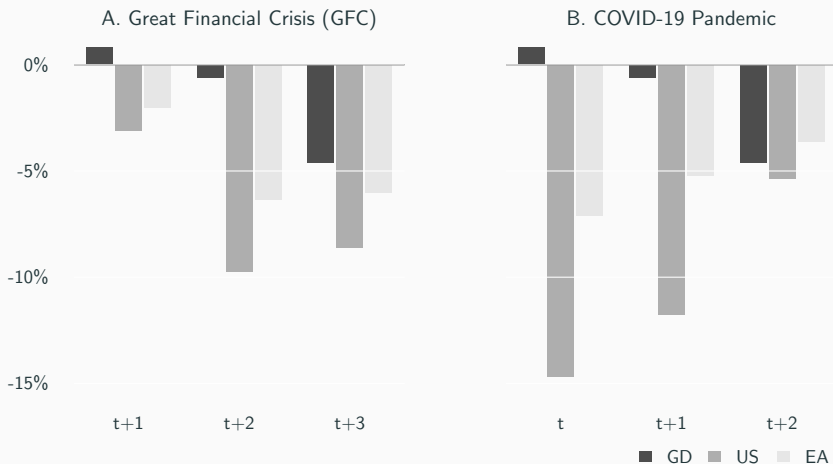
- ➊ Fiscal response in USA and the Euro Area (EA) to the Great Depression of 1929 (baseline scenario), the 2007-2009 Global Financial and Economic Crisis (a.k.a the Great Recession), and the COVID-19 pandemic
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Part II. Macroeconomic outcomes

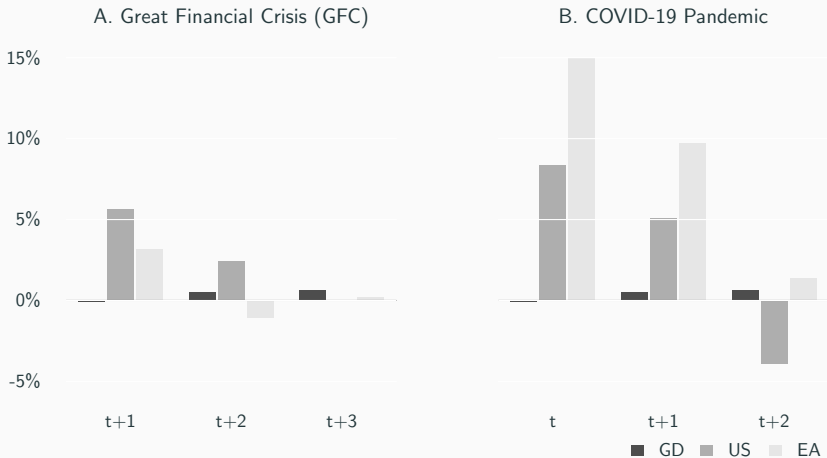
- ① Industrial production in USA and the EA (EA) during the Great Depression of 1929 (baseline scenario), the 2007-2009 Global Financial and Economic Crisis (a.k.a the Great Recession), and the COVID-19 pandemic
- ② Employment the Great Depression of 1929 (baseline scenario), the 2007-2009 Global Financial and Economic Crisis (a.k.a the Great Recession), and the COVID-19 pandemic
- ③ Stock markets in the Great Depression of 1929 (baseline scenario), the 2007-2009 Global Financial and Economic Crisis (a.k.a the Great Recession), and the COVID-19 pandemic

Fiscal and Monetary Responses to Three Major Macroeconomic Shocks

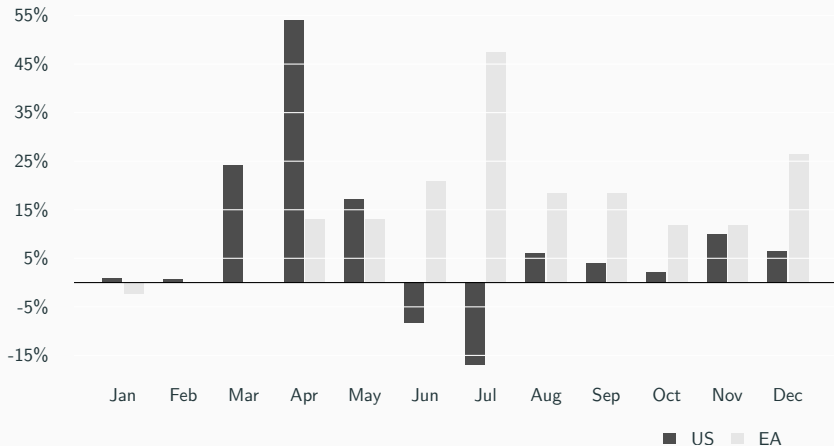
Fiscal Response to the GFC and the COVID-19 Pandemic



Monetary Response to the GFC and the COVID-19 Pandemic



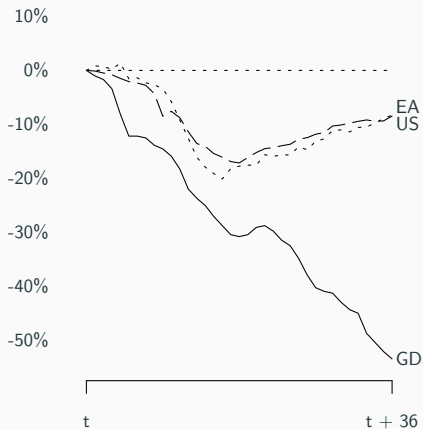
Monetary Response to the COVID-19 Pandemic (Monthly)



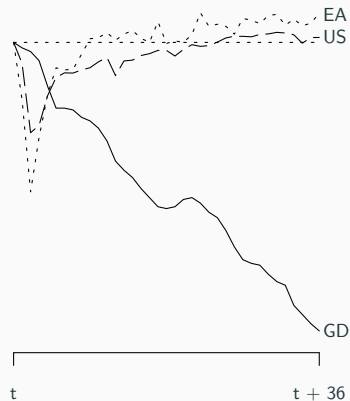
Macroeconomic Outcomes

Industrial Production Post GFC and COVID-19 Pandemic

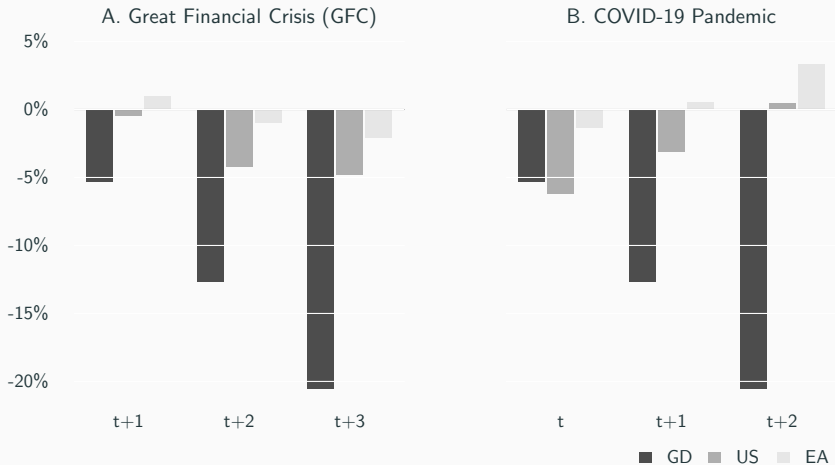
A. Great Financial Crisis (GFC)



B. COVID-19 Pandemic

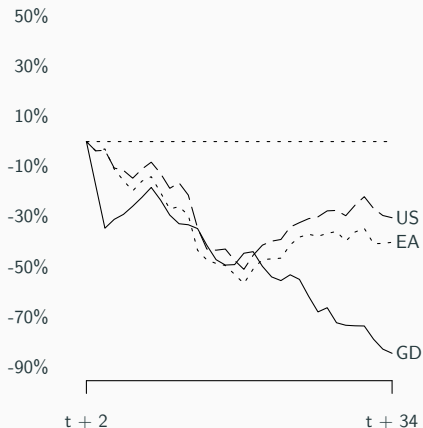


Employment Post GFC and COVID-19 Pandemic

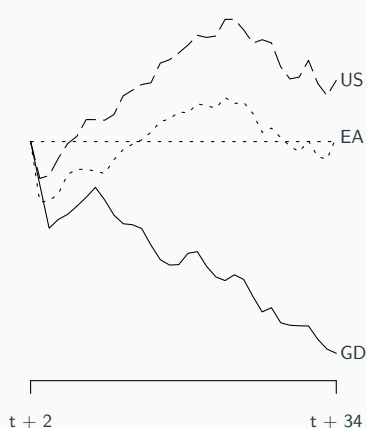


Stock Markets Post GFC and COVID-19 Pandemic

A. Great Financial Crisis (GFC)



B. COVID-19 Pandemic



Inflation and Speculation in Financial Assets as Side Effects of Policy Responses

Keynes and Lenin on Inflation

Lenin is said to have declared that the best way to destroy the capitalist system was to debauch the currency. By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method they not only confiscate, but they confiscate arbitrarily; and, while the process impoverishes many, it actually enriches some.

JOHN MAYNARD KEYNES (1919)

The sight of this arbitrary rearrangement of riches strikes not only at security, but at confidence in the equity of the existing distribution of wealth. Those to whom the system brings windfalls, beyond their deserts and even beyond their expectations or desires, become “profiteers,” who are the object of the hatred of the bourgeoisie, whom the inflationism has impoverished, not less than of the proletariat.

JOHN MAYNARD KEYNES (1919)

In Search of Higher Returns

John Bull... can stand a great deal, but he cannot stand two per cent... Here the moral obligation arises. People won't take 2 per cent; they won't bear a loss of income. Instead of that dreadful event, they invest their careful savings in something impossible — a canal to Kamchatka, a railway to Watchet, a plan for animating the Dead Sea, a corporation for shipping skates to the Torrid Zone.

WALTER BAGEHOT (1852)

“Bubble” Triangle

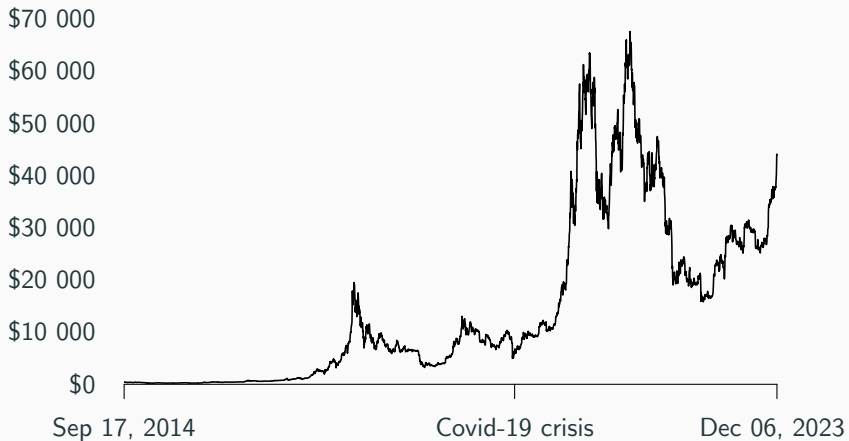
Three ingredients of a financial “bubble” (Quinn et. al., 2020)

- Market liquidity
- Money and credit
- Speculative sentiment among investors

As the inflation proceeds and the real value of the currency fluctuates wildly from month to month, all permanent relations between debtors and creditors, which form the ultimate foundation of capitalism, become so utterly disordered as to be almost meaningless; and the process of wealth-getting degenerates into a gamble and a lottery.

JOHN MAYNARD KEYNES (1919)

Bitcoin Price in USD



Resources

GitHub repository:

<https://github.com/lyuben-ivanov/lille23>

R installation of package lille23:

`devtools::install_github("lyuben-ivanov/lille23")`

Thank you!