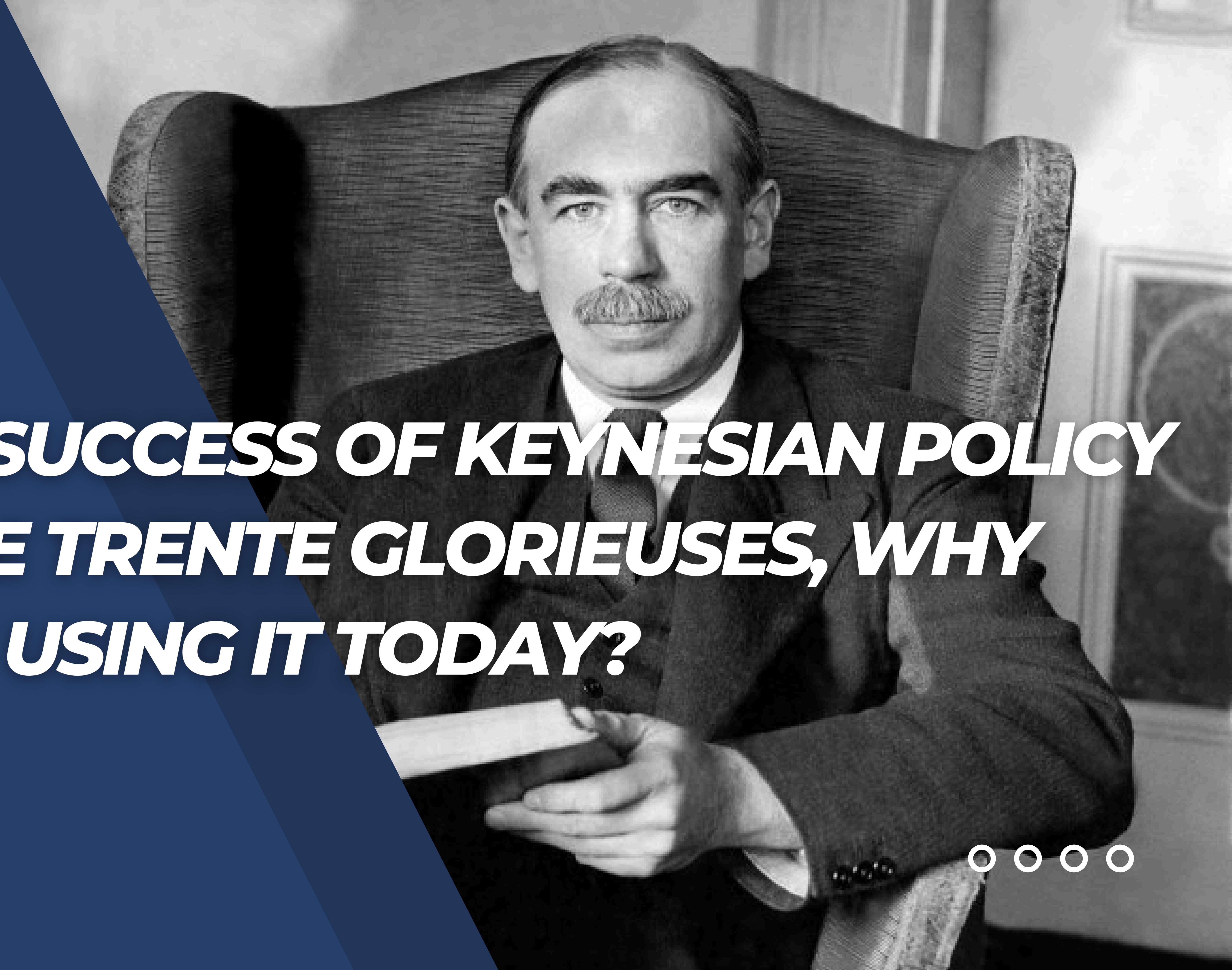
GREAT ECONOMY
THINKER

# GIVEN THE SUCCESS OF KEYNESIAN POLICY DURING THE TRENTE GLORIEUSES, WHY AREN'T WE USING IT TODAY?



APOLLINE CHAPON

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# Context

1929 **The great depression**

The United States is experiencing a major banking crisis

The largest recession in history

Consumption and production have plummeted, creating long-term mass unemployment.

## Unemployment rate

- **24% in the United States**
- **11.5% in England**

*Neoclassical economists simply advise to let things be and wait for automatic adjustment.*

# The theory of Keynesianism

1936 **John Maynard Keynes**

Publication of the book "General Theory of Employment, Interest and Money"

Government intervention in the economy and monetary policy are the best ways to ensure economic growth

**Keynesian multiplier:** By investing or implementing stimulus policies, we will have a multiplier effect on production, employment and the standard of living

## Effective demand

Household demand is the very engine of the economy

This demand is the basis of investment, consumption and wealth creation

# 30 GLORIEUSES 1945-1975

## Post-war period :

**Massive demand** for labor and public investment

**Marshall Plan 1948:** The United States injected approximately 13 billion dollars into the European economy

The **Bretton Woods system (1944-1971)** established a fixed exchange rate regime, where currencies were pegged to the dollar, which ensured financial stability.

## Results :

- **Low unemployment rate**: around 5% in the USA
- **Wage increases** and social protection,
- Creation of **strong sustained demand** for goods and services

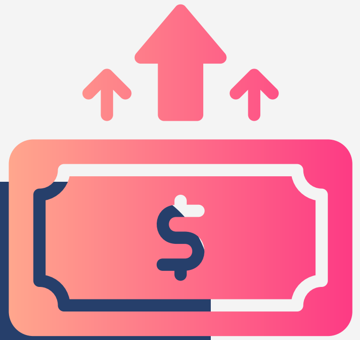
# THE LIMITS OF KEYNESIANISM

## Globalisation

Depends on a **country's openness** coefficient

In an open economy, part of household demand **shifts to imports** rather than domestic production

**Stability and Growth Pact (1997)** limits national possibilities to use expansionary fiscal policies to support demand




## Long-term ineffectiveness

Criticisms of **neoclassicals and monetarists**: risk of **inflation** without stimulating growth

**Public debt risk**: By increasing public spending to revive the economy

**Deadlines** for implementing budgetary policies

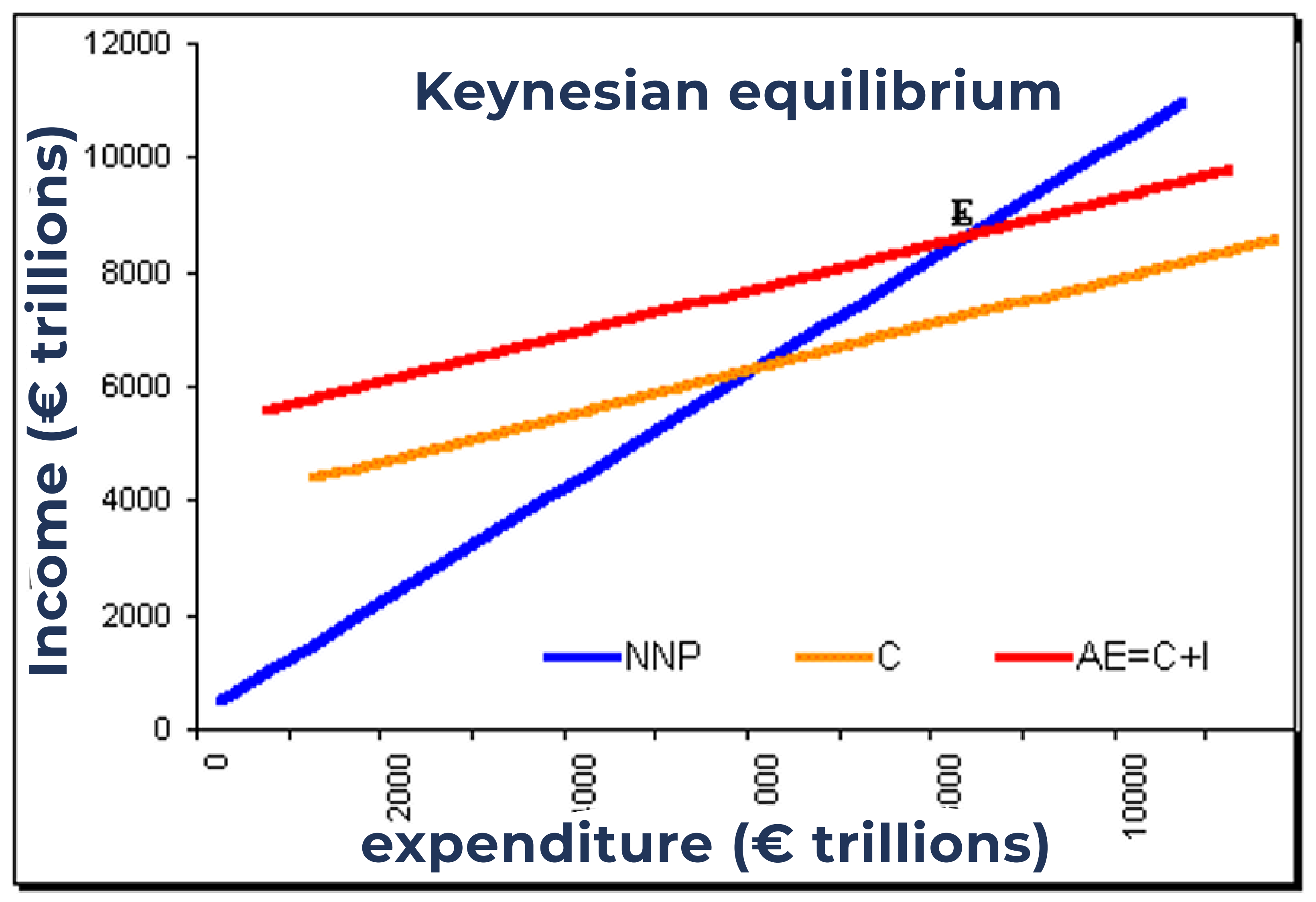
Ineffective in the face of **supply crises**: oil shock, shortage of raw materials

# THE LIMITS OF KEYNESIANISM

## Crowding out effect

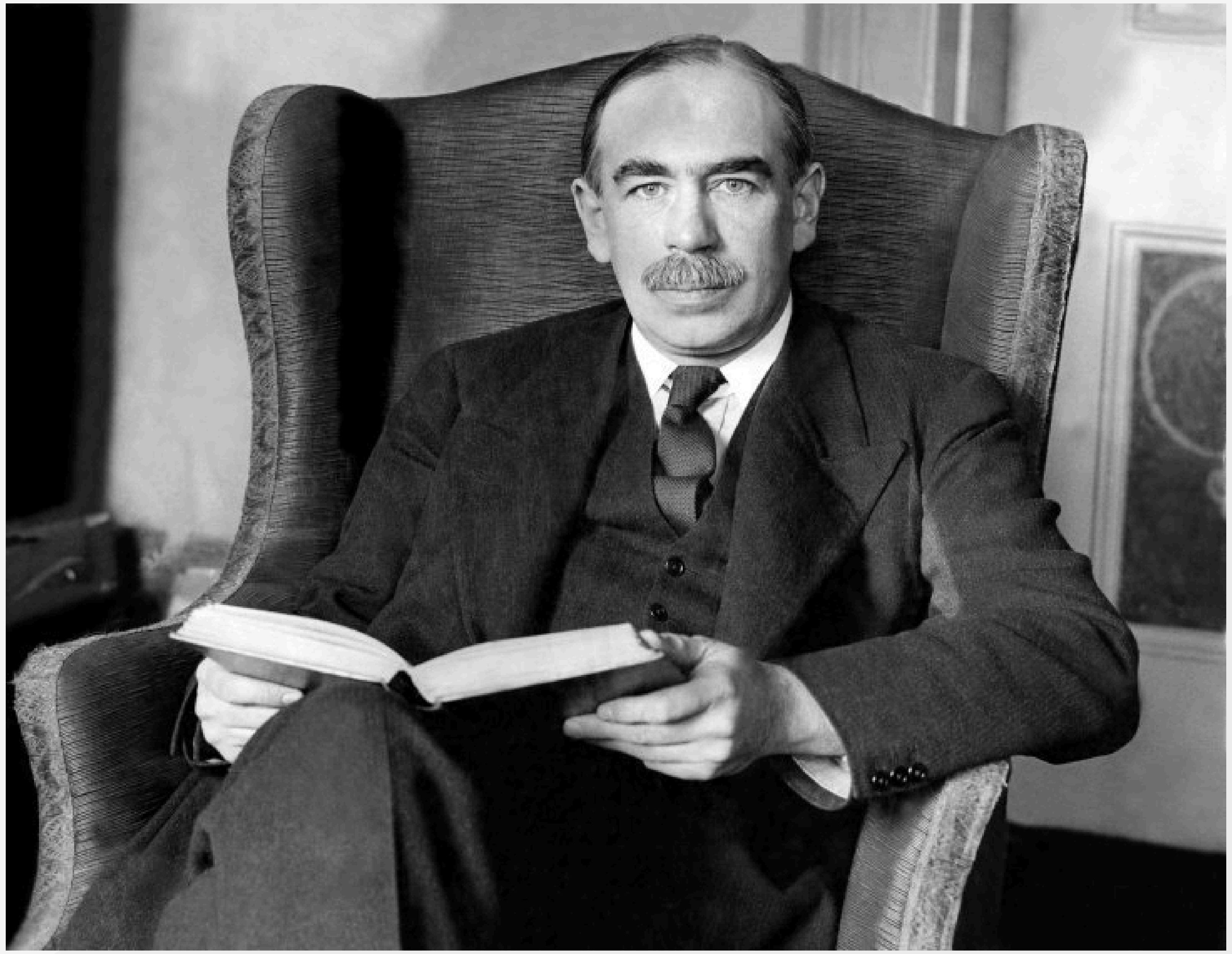
When the government borrows to finance its spending, this can lead to an **increase in interest rates,** thus **reducing private investment**

**Friedman** argues that individuals have **adaptive rationality**. If the government does not continue to support consumption when inflation occurs, they will better **anticipate inflation** during a future stimulus.




*Chapitre 8 : THÉORIE DE L'EMPLOI DE KEYNES. Dans PEIO*

# WHY AREN'T WE USING IT TODAY?



**Different economic context**

Globalisation

Open economy

Technological change

**Economic shocks and the limits of Keynesianism**

Oil shock of 1973 and 1979

State debt

Fear of inflation

**Rise of neoliberal ideas**

Reduction of the role of the State, privatizations, deregulation of financial markets

Preferred monetary policy

Trade agreements and international institutions

# Conclusion

**30 glorieuses:**

Strong growth, full employment, sustained demand and market regulation…

**Today:**

Globalization, market liberalization, aging demographics, public debt….

BUT In times of crisis e.g. Covid crisis, states and central banks continue to use stimulus policies

Neo-Keynesianism


*Next question : Under what circumstances can it be used effectively?*

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