

Keynes' Vision for Today: Employment, Prosperity and Equality

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John Maynard Keynes, 1883-1946

1. Demonstrated that **Neoclassical Theory** cannot explain the economics of **crisis!**
2. *The General Theory of **Employment, Interest and Money***, 1936, concluded:
3. The economic market-system is **not** self-adjusting to **full employment & growth**

What would Keynes have said to

The European Growth Crisis?

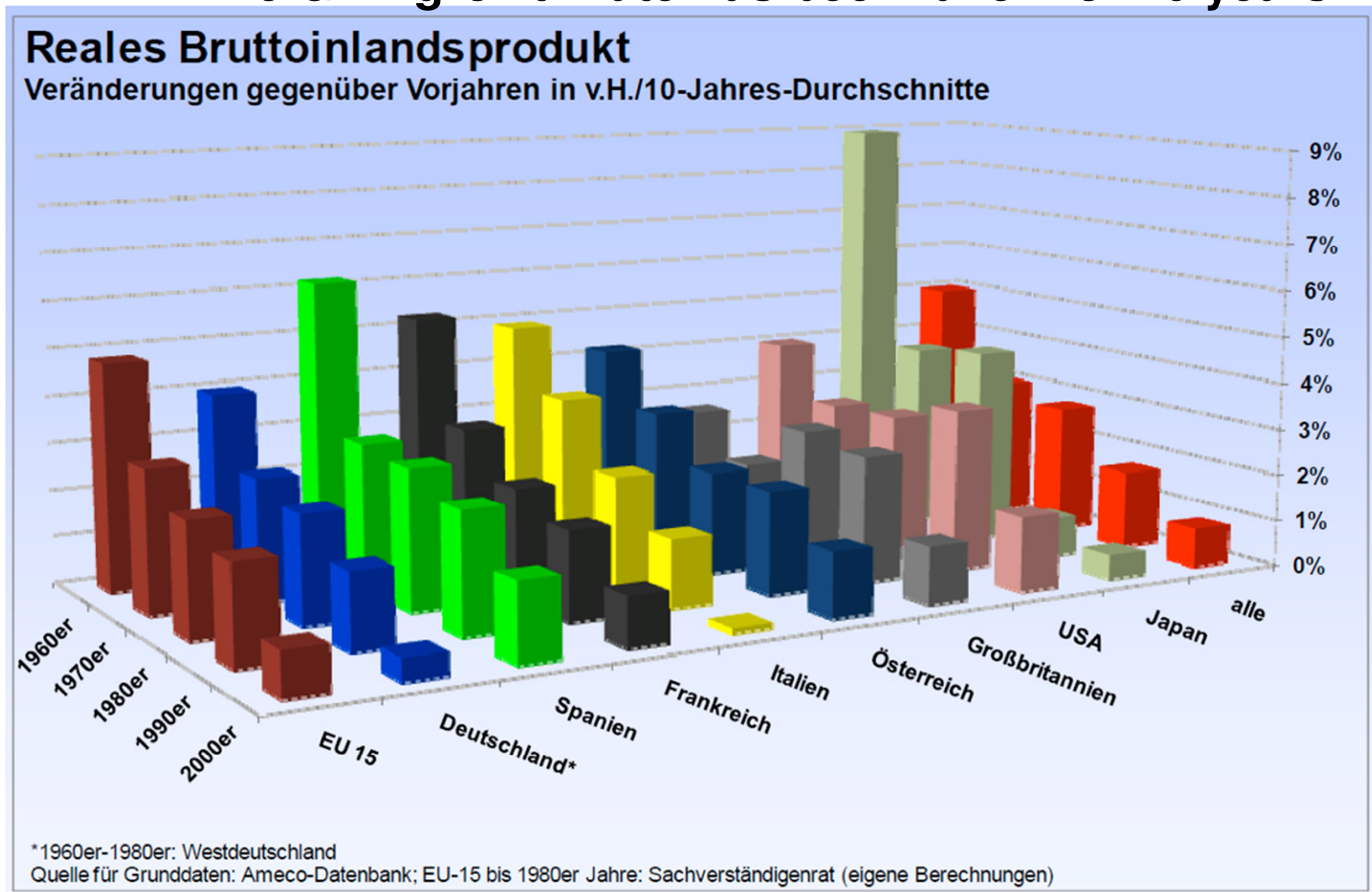
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**Euro-zone Saving and Investment
Crisis?**

&

Southern European employment Crisis?

The GDP growth rate has been fallen for 40 years

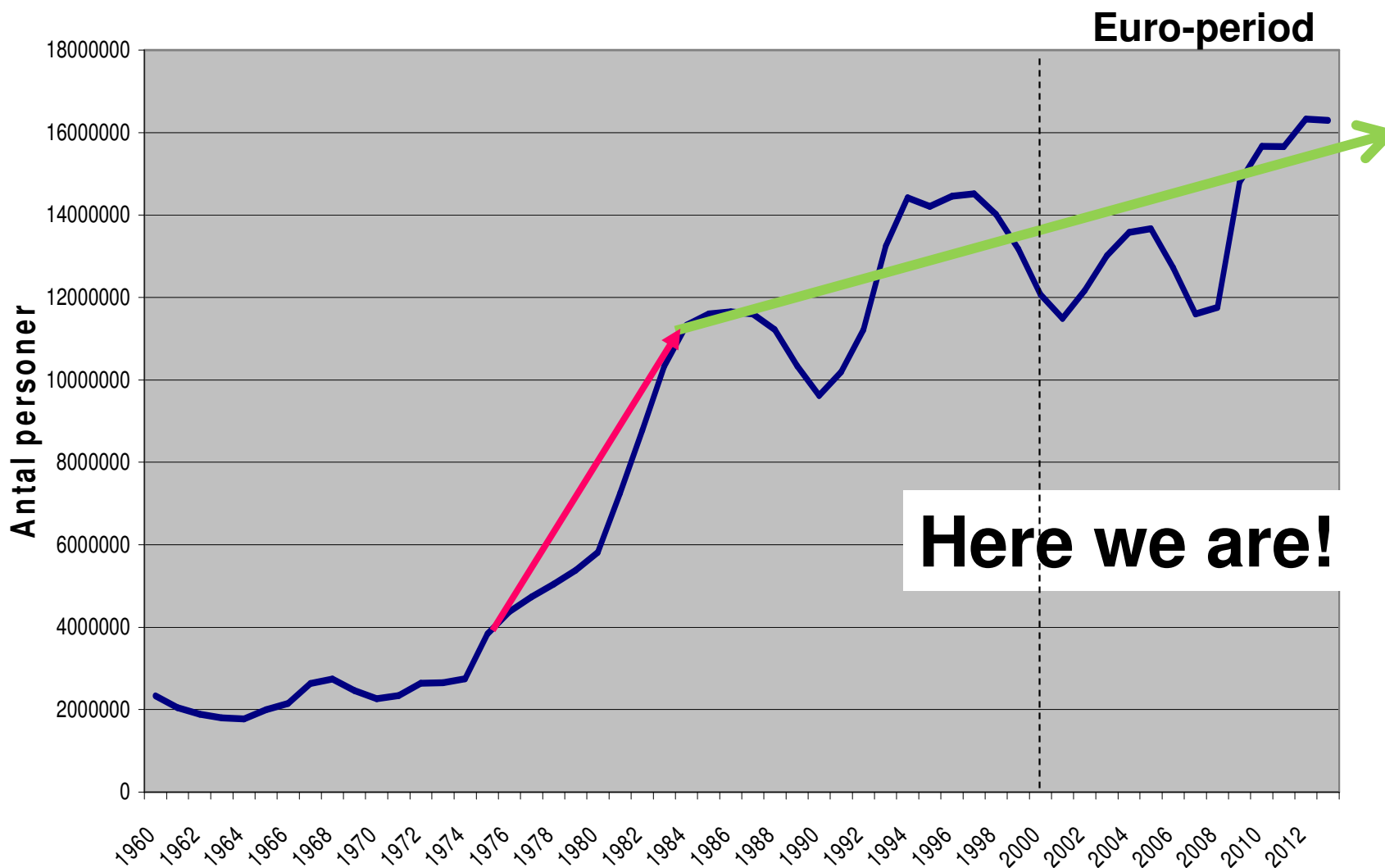


Source: Norbert Reuter: Presentation on the welfare state in post-growth society

Unemployment has been rising

How can self-adjustment be assumed?

Arbejdsløshed, Euro-zonen (15 lande)



Kilde: OECD, Economic Outlook, dec. 2011

The
Economist

OCTOBER 25TH - 31ST 2014

Economist.com

Cheaper oil: winners and losers
How big data could help stop Ebola
Cameron's European bungle
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Skiving at work: a guide

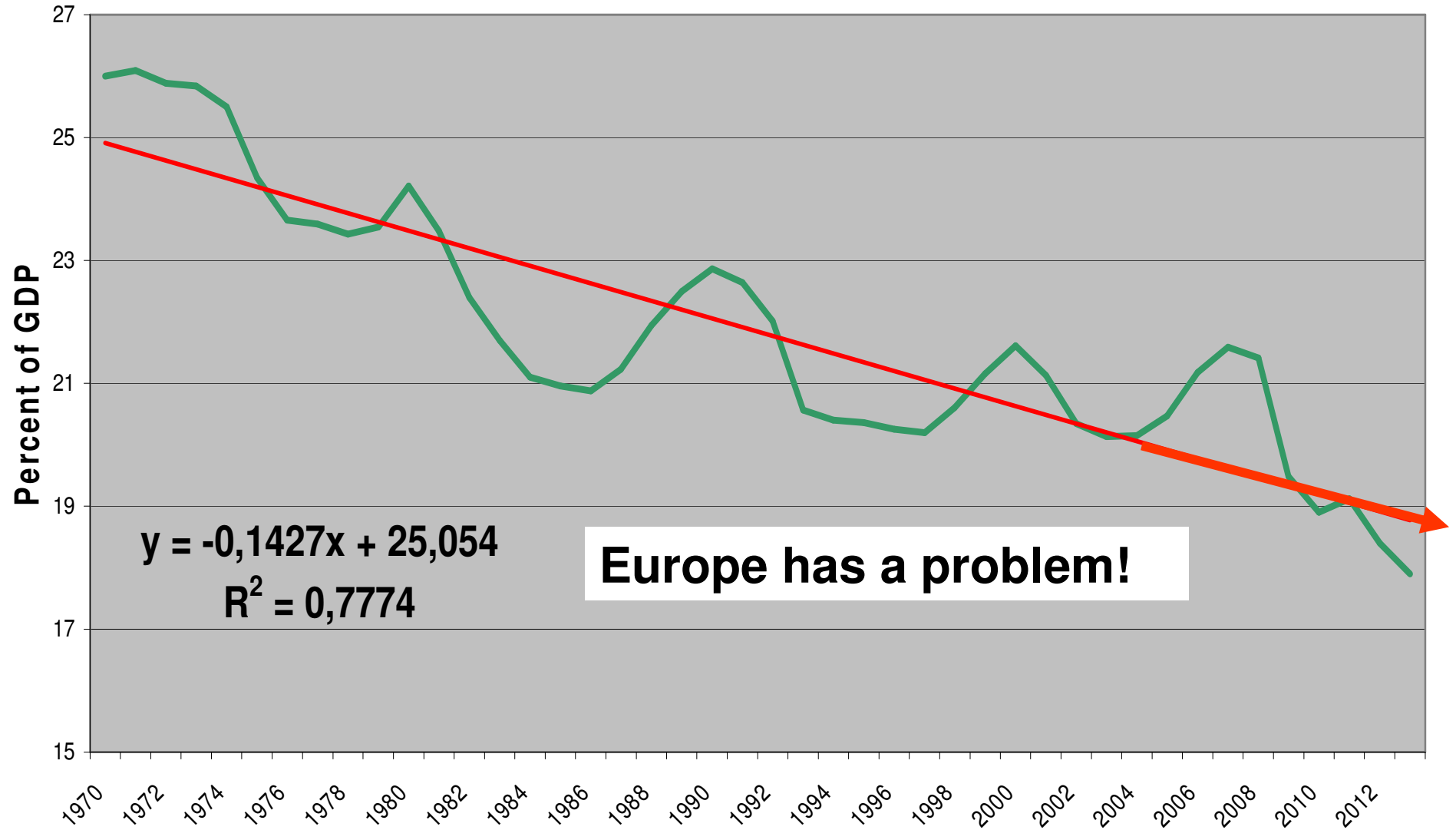
Europe's economy

'It is only resting!'

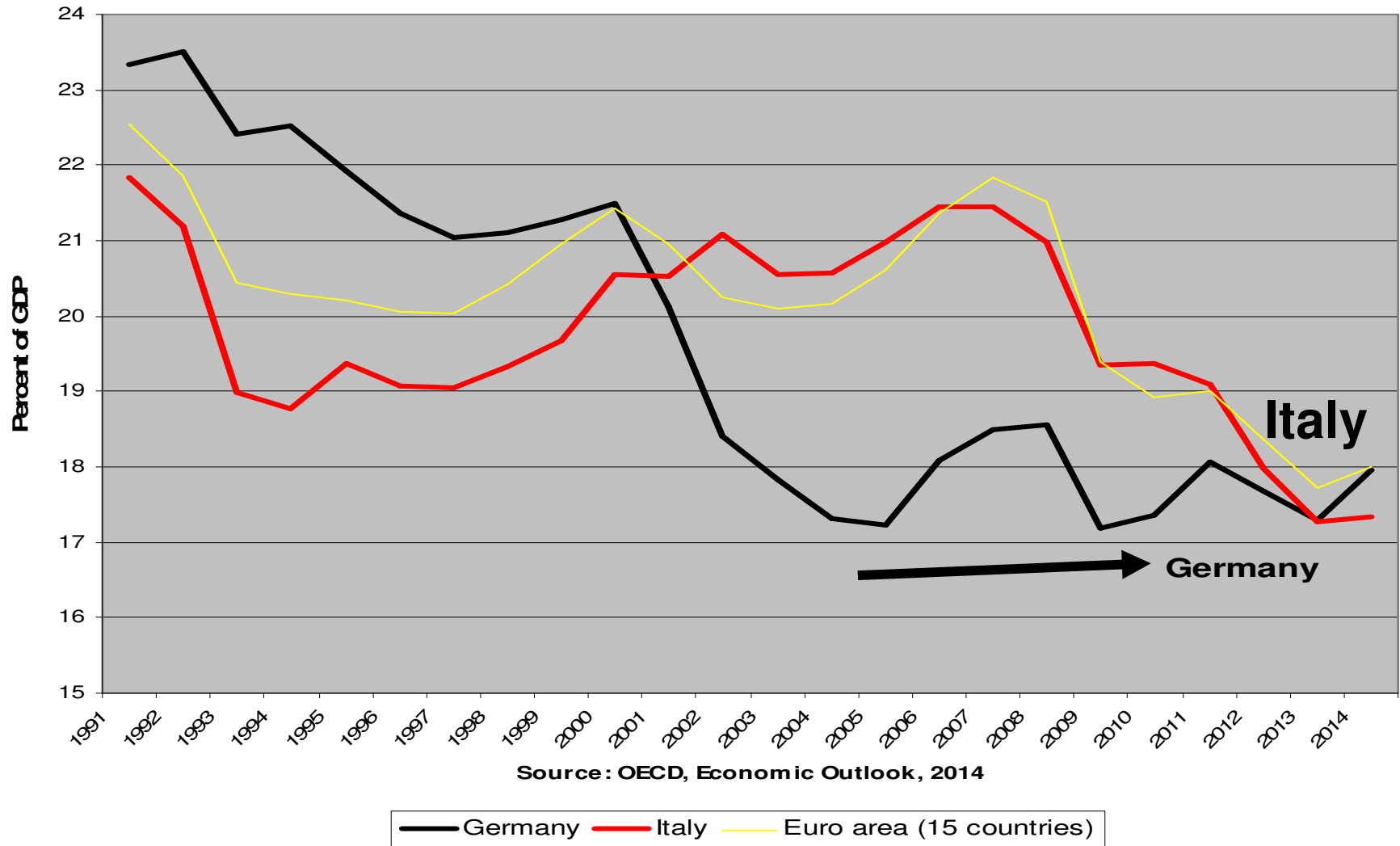


She is wrong!

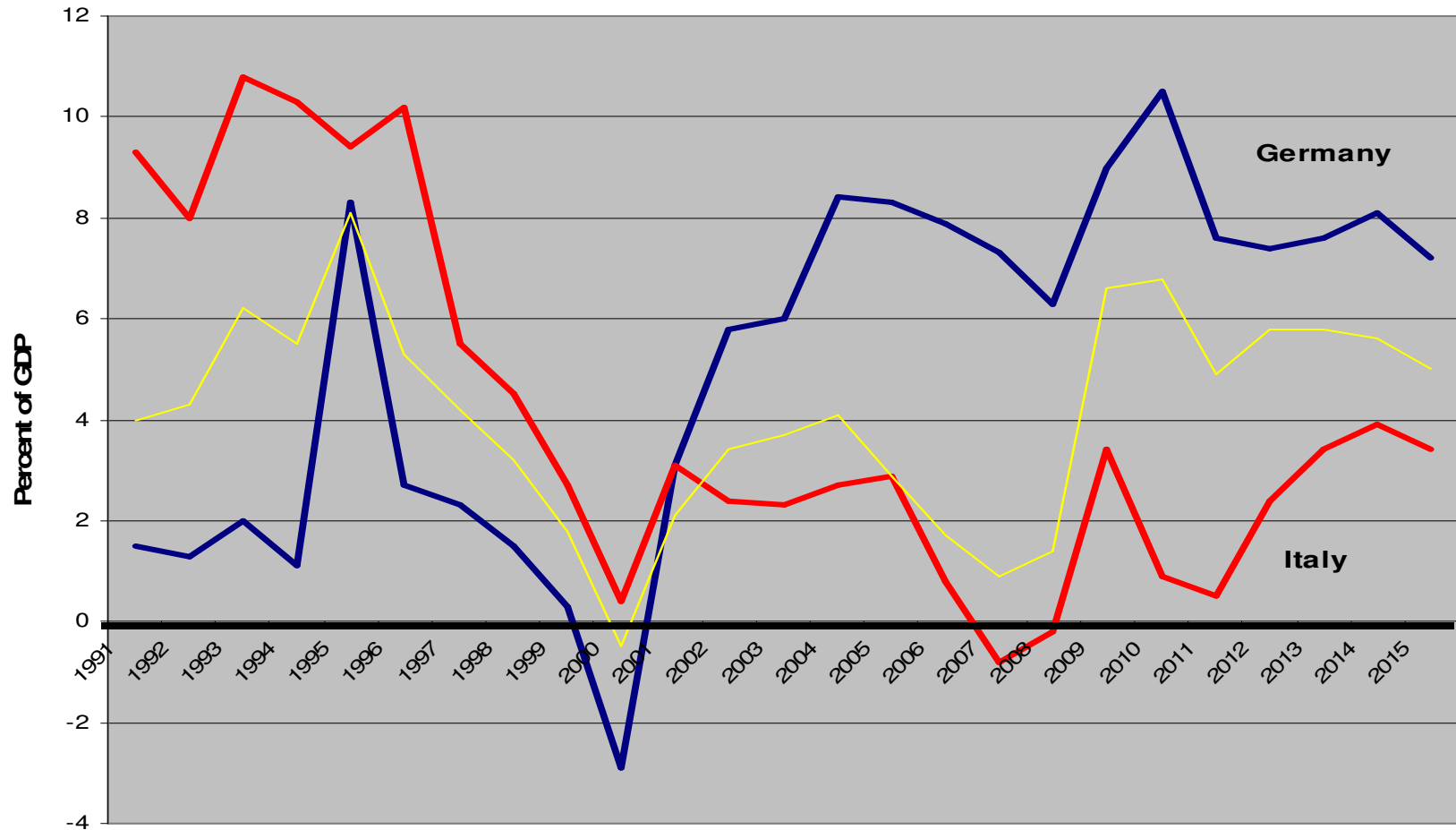
Euro(15): Real Investment/GDP, 1970-2013



Real Investment ratio, 1991-2014



Private sector, financial saving, 1991-2015



Source: OECD, Economic Outlook, 2015

Germany Italy Euro area (15 countries)

A Real Keynes-Crisis: **Paradox of Saving in reality**

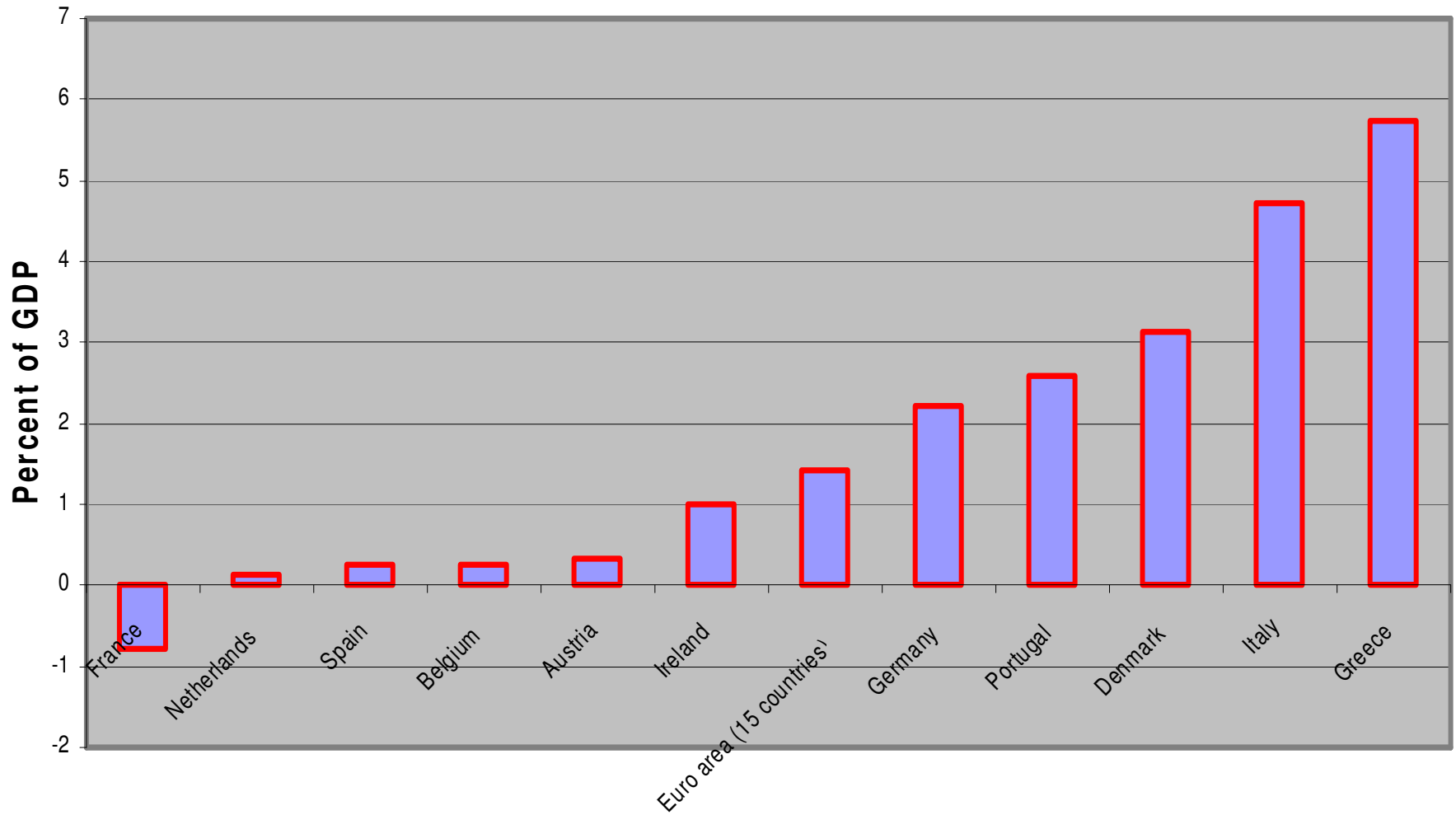
PRIVATE SAVINGS are not automatically transformed to **REAL Fixed INVESTMENT**, because of

1. Uncertainty related to the crisis and future welfare
2. Financial sector speculative behaviour
3. Sustainable investments need public planning

A recipe of a Vicious Cycle:

- Private sector is saving, but dare not/cannot undertake real investment → **Unemployment**
- Unemployment → Budget Deficit
- Budget deficit → austerity policies
- Austerity → further unemployment

Fiscal Policy, 2014*



* Underlying primary Public sector budget

What would Keynes have recommended?

Burn the old textbooks

They assume:

- 1. Saving = Investment**
- 2. Private sector self-adjusting to full employment**
- 3. Budget surplus**



What to do?

Keynes said change causality:

1. Look after unemployment →
the Budget will look after itself!

&

2. Governments should plan real investment
and socialize private excess saving

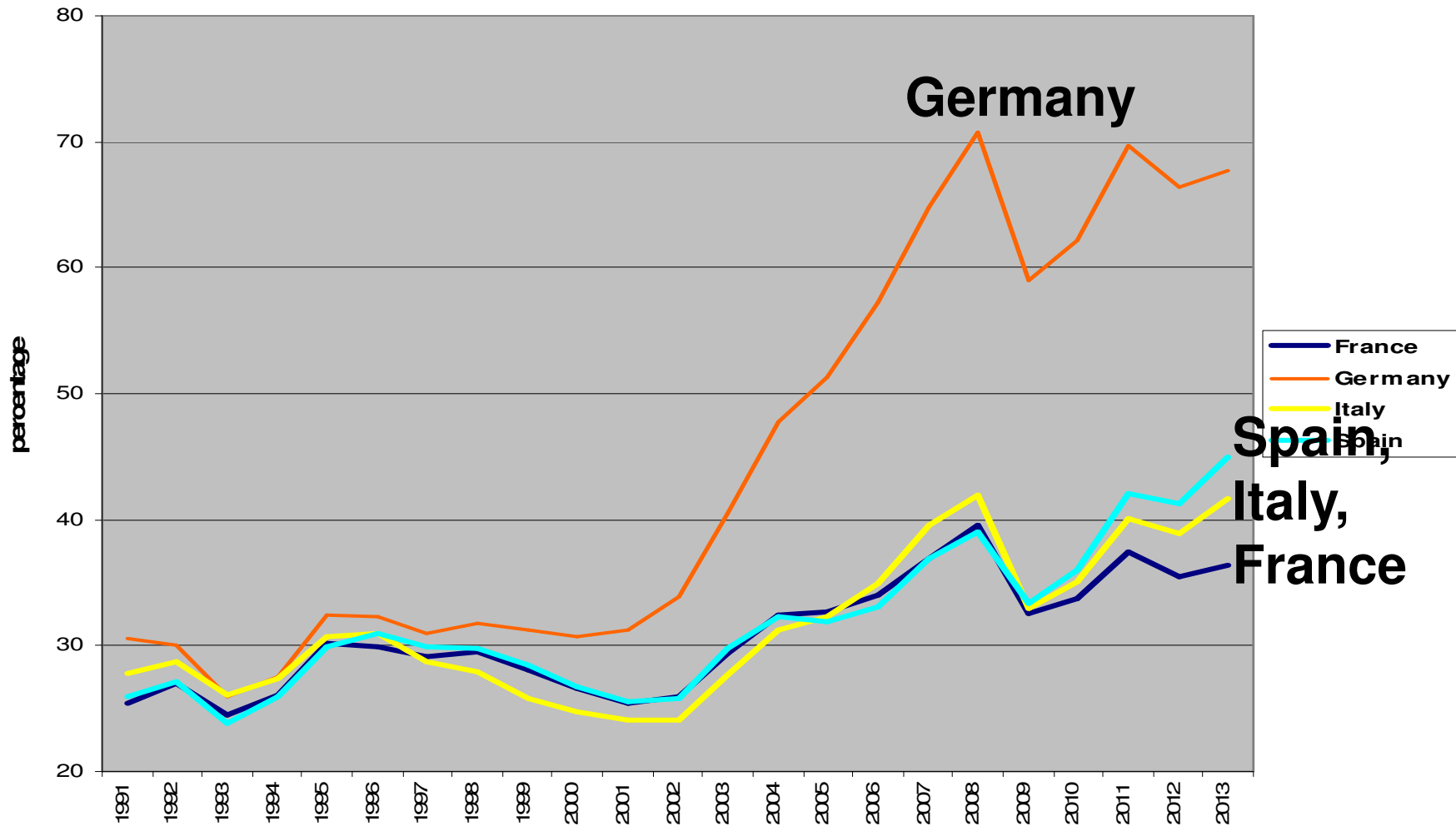
How to do it?

European crisis: Undertake the Juncker plan!
Bruxelles should guaranty real investment of 2 pct.
of GDP financed by private excess savings!
(public investment in sustainable future)

Euro-crisis: countries with Balance-of-Payments
surplus should pay half of it into **solidarity fund**
(like Keynes suggested at Bretton Woods-1944)

Germany is exporting her self out of crisis

Export/GDP ratio



Source: OECD, Ec. Outlook, jun. 2013

If Germany says 'Nein'

The way out of financial crisis is possible by:

1. South-euro (maybe with France?)
2. financial transaction Tax,
3. capital control (for a while)
4. Tough bank regulation (no speculation)

Hence, Southern Europe (and France) could

1. Stop further austerity policies
2. Start to rebuild the welfare state
3. Increase competitiveness by reducing production taxes
4. Instead, increase income and financial taxes. In my country there is a 15 % extra tax (40% + 15 %) on income above 60.000€/year

I say thank you to you and to:

John Maynard Keynes, 1883-1946



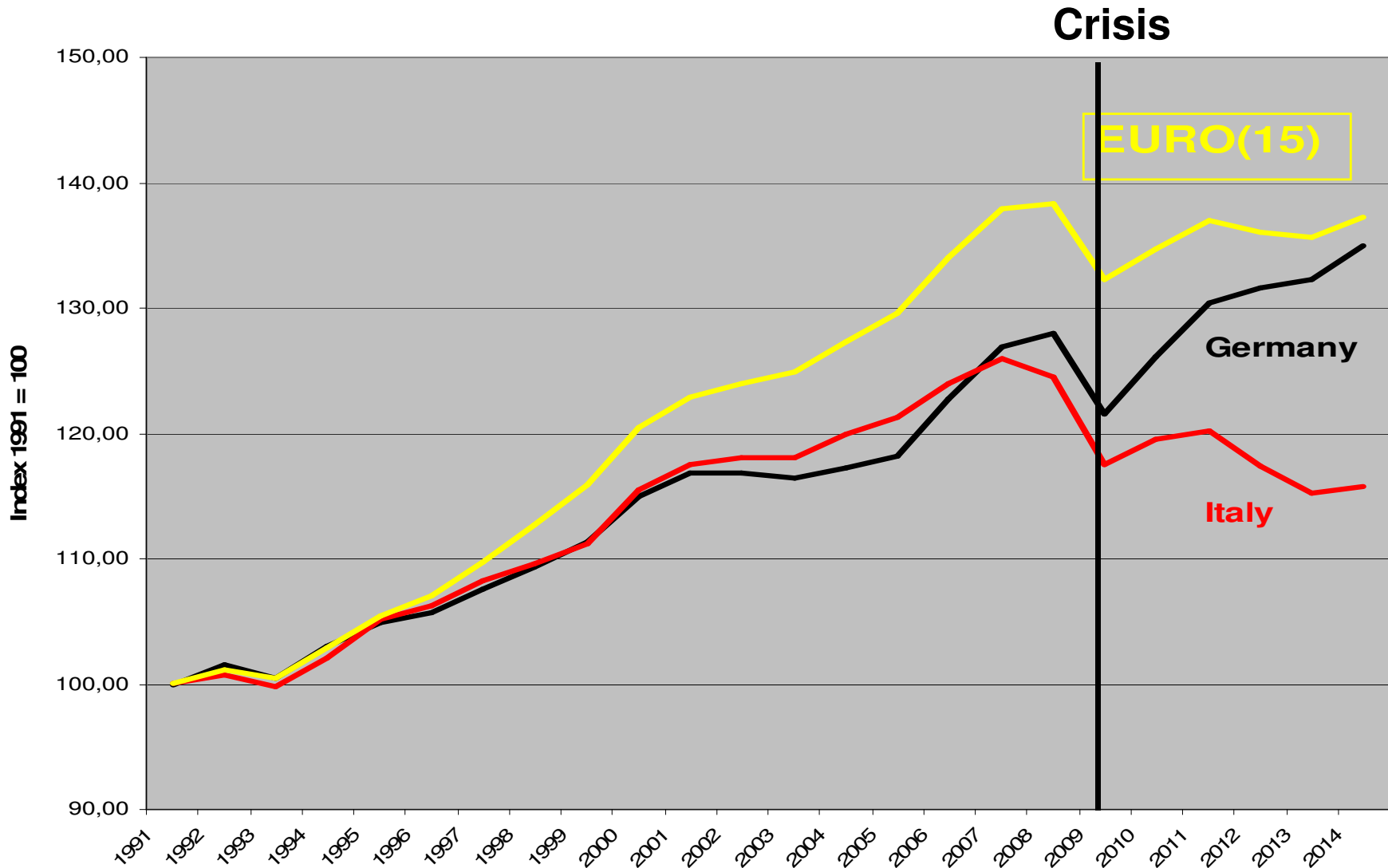
For inspiration to get out of crisis!

Appendices

- The following are extra slides not used for the lecture on 14th October 2015

At the expense of the other euro-countries!

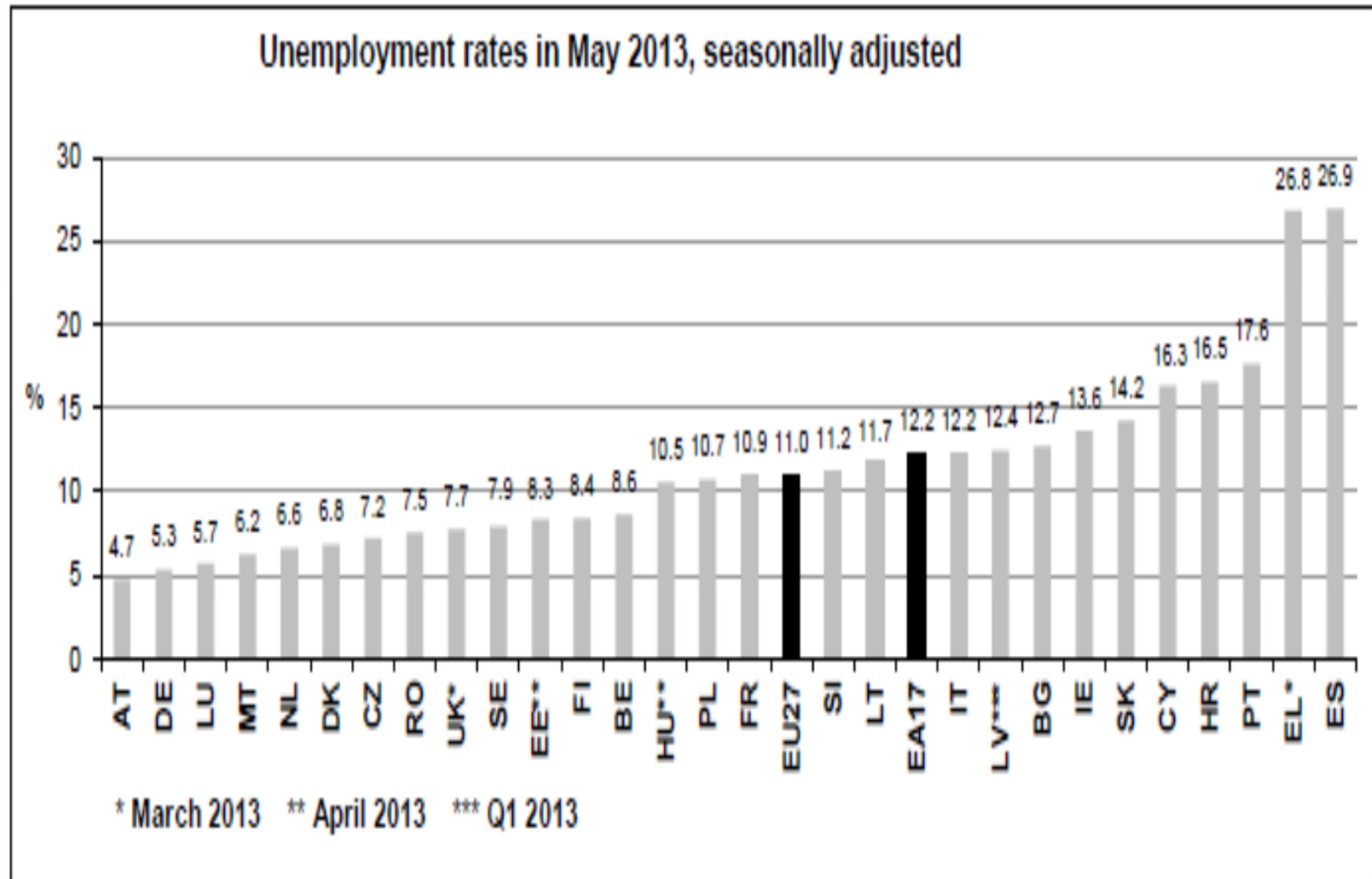
Gross Domestic Product



Source:OECD, Ec. Outlook, June 2014

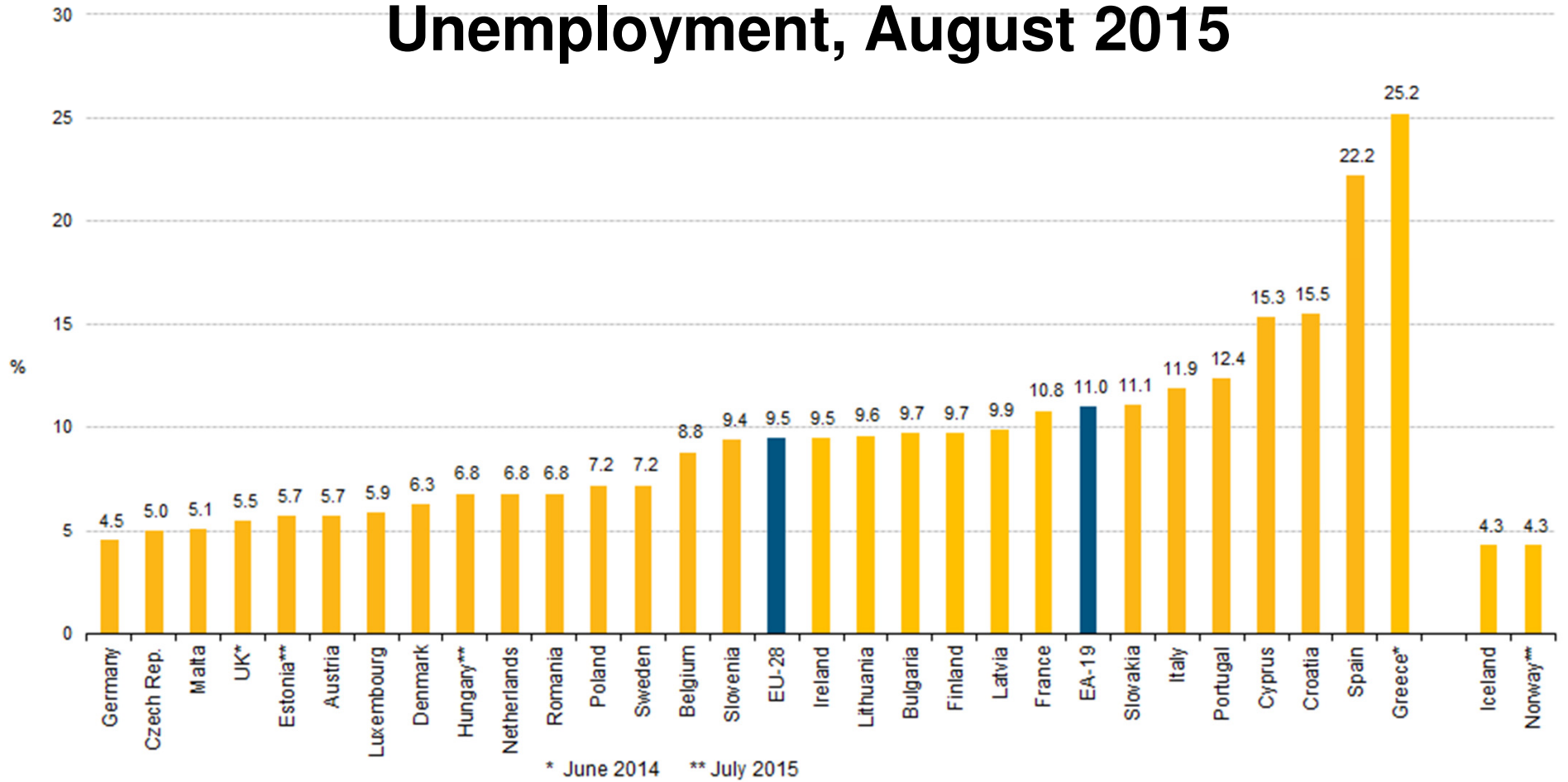
Euro-zone Dilemma:

Unemployment has become so unevenly distributed



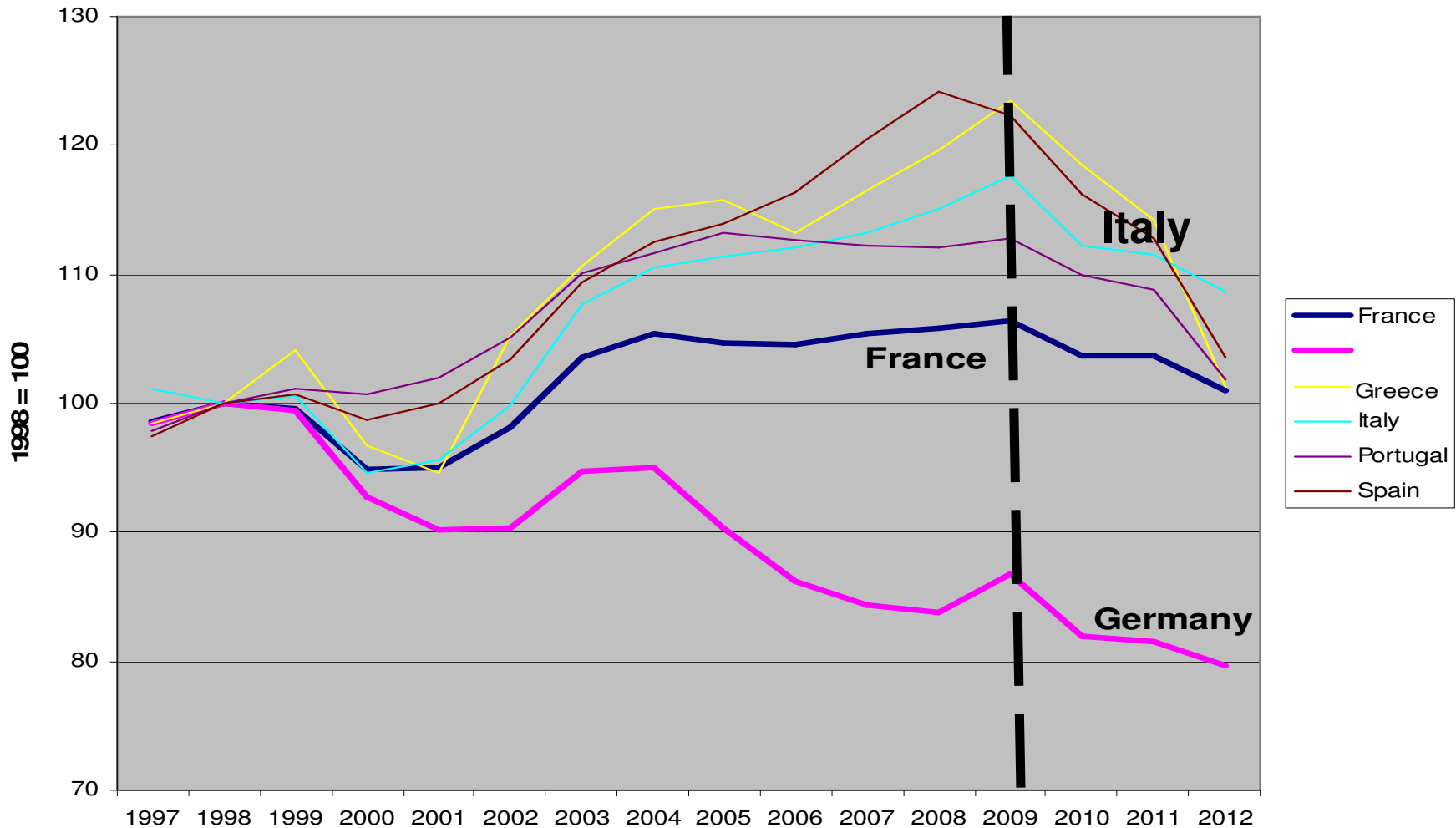
And it goes on,

Unemployment, August 2015



Why? Because you can't beat the Germans

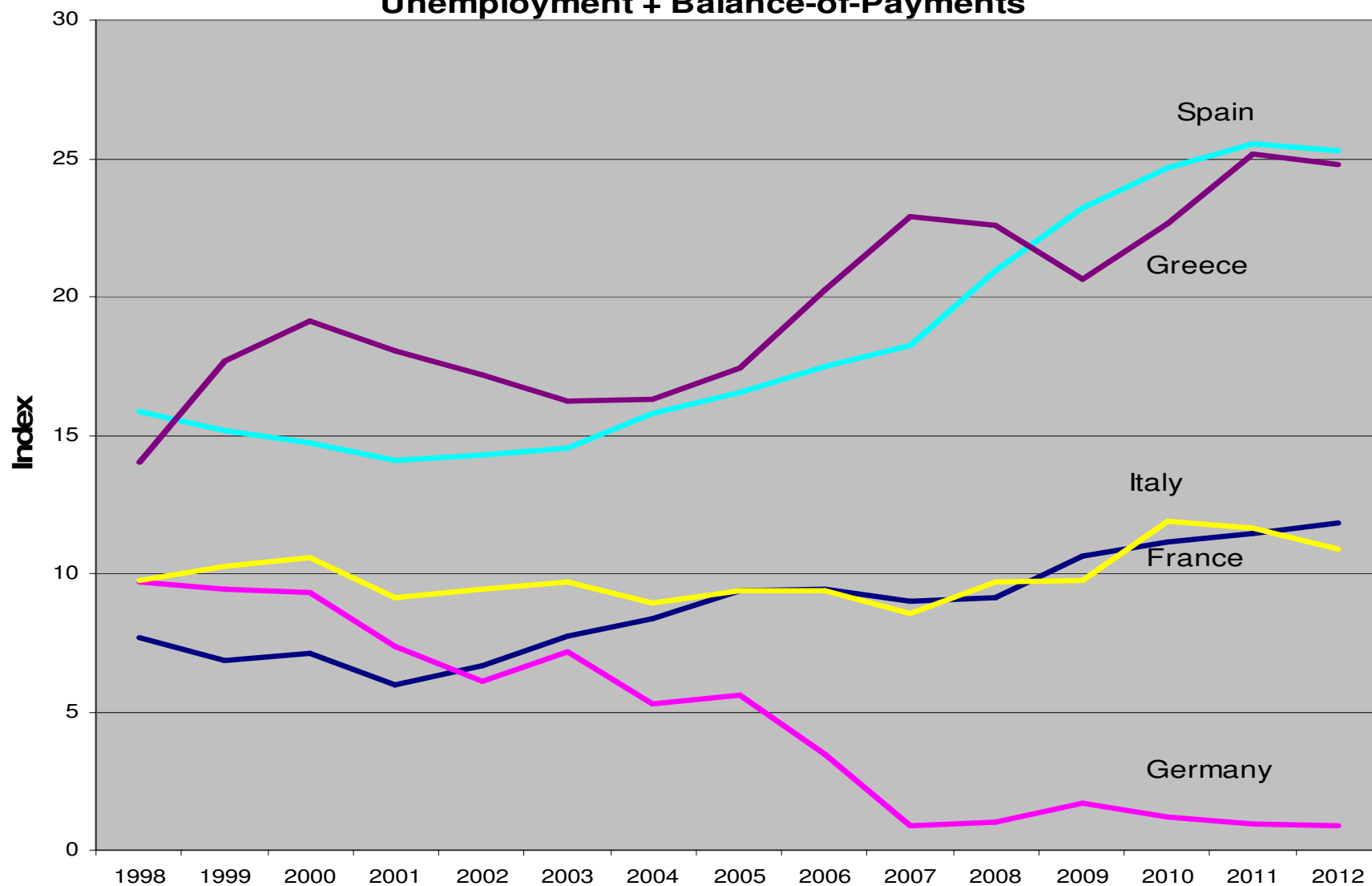
International competitive position (Unit Labour Cost)



Source: OECD, Economic Outlook, Juni 2013

But all countries cannot have a Balance-of-payments surplus!

**Figur 1: Macroeconomic Imbalances:
Unemployment + Balance-of-Payments**



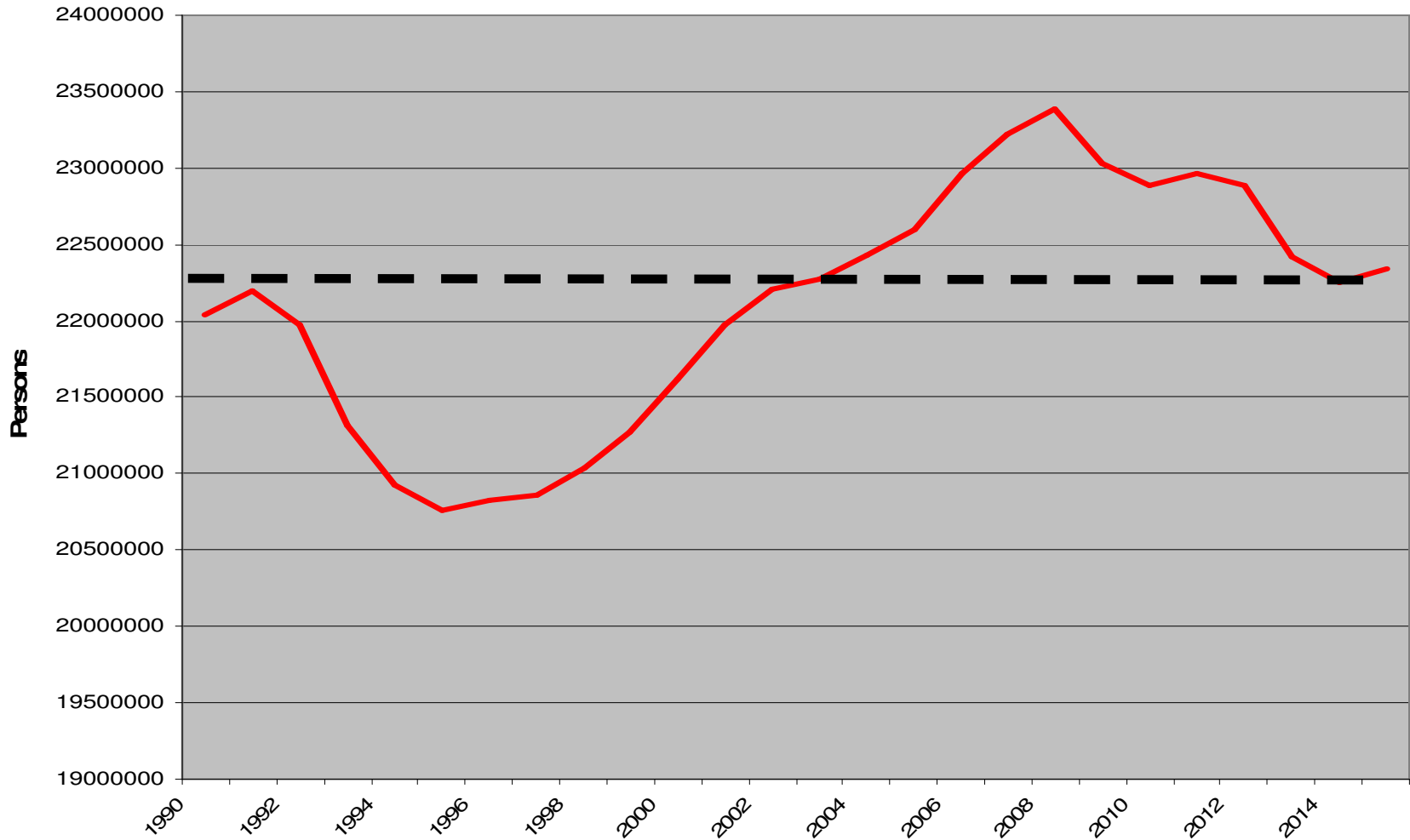
Kilde: OECD, Economic Outlook, Dec. 2011

Don't blame everything on the euro, but the euro-monetarist were wrong!

1. The euro-zone is not an Optimal Currency Area!
2. Hence, some countries will gain, but most countries will loose
3. Austerity policies and lack of internal demand will make the euro-zone, as a whole, to underperform
4. And, what did we get: slow growth and rising unemployment in Europe as a whole
5. And in some countries even a social and economic collapse

Here we are, unfortunately!

Italy, Employment, 1990-2014

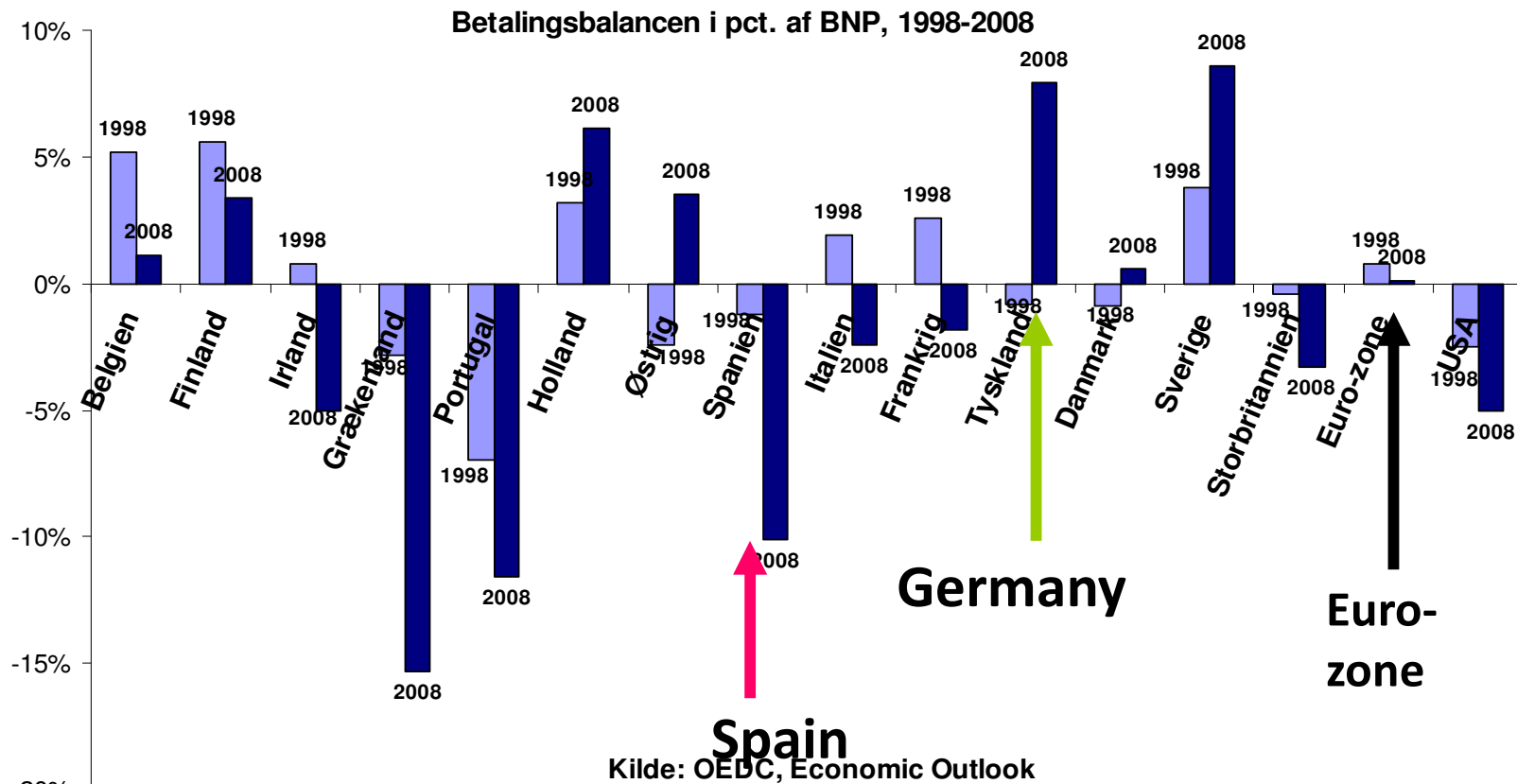


Source: OECD, Economic Outlook, 2015

The main problem is, that Euro-zone is not an Optimal Currency Area

1. Only Countries with matching economic structures should have a common currency
 2. Italy (and France) do not match Germany
 3. Not to speak of Greece, Spain and Portugal – that was well known in the 1990s,
 4. but denied by the **Euro-monetarists**
- ➔ Wish gave support to the premature wishful thinking **of a common European currency**

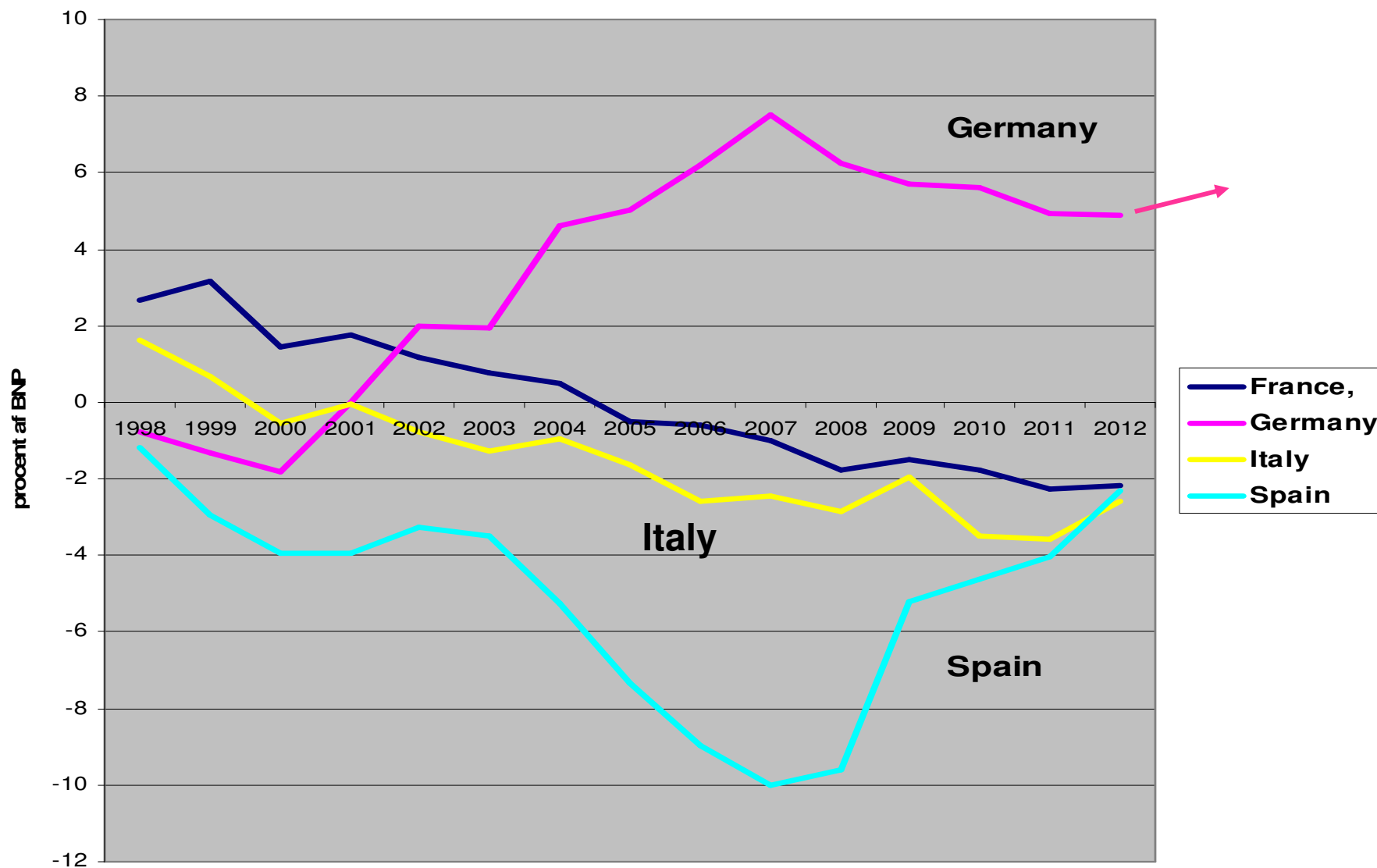
Which caused so much economic hardship and imbalances



1998 – light blue

2008 – dark blue – **German surplus, €200 bill.**

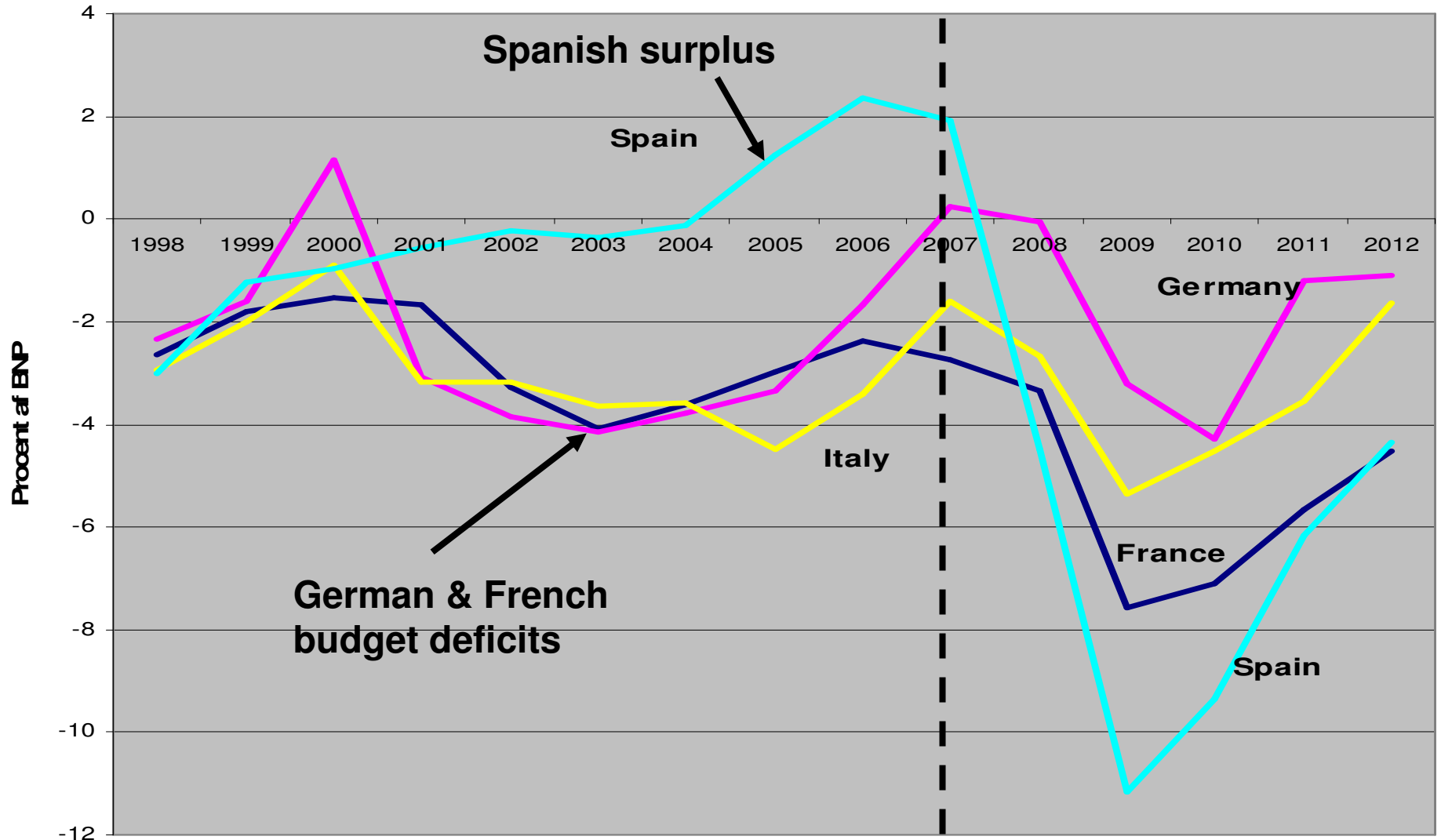
Balance of Payments current account



Source: OECD, november 2011

But the EU-Commission was looking the other way

Figur 2: Public sector's budget



Source: OECD, Economic Outlook, dec. 2011

Some realist conclusions:

1. The monetary union has made the Eurozone to underperform during the crisis
2. Hence, causing increased social cost, reduced welfare and increased inequality in Europe and for her trading partners
3. Further, it has made Germany the heavy-weight in EU-decision making
4. Even worse, no viable solution is in sight within the present EU-treaty

So, what to do?

Do Italy and France really dare to challenge the German hegemony?

By proposing: **a EU Prosperity Pact:**

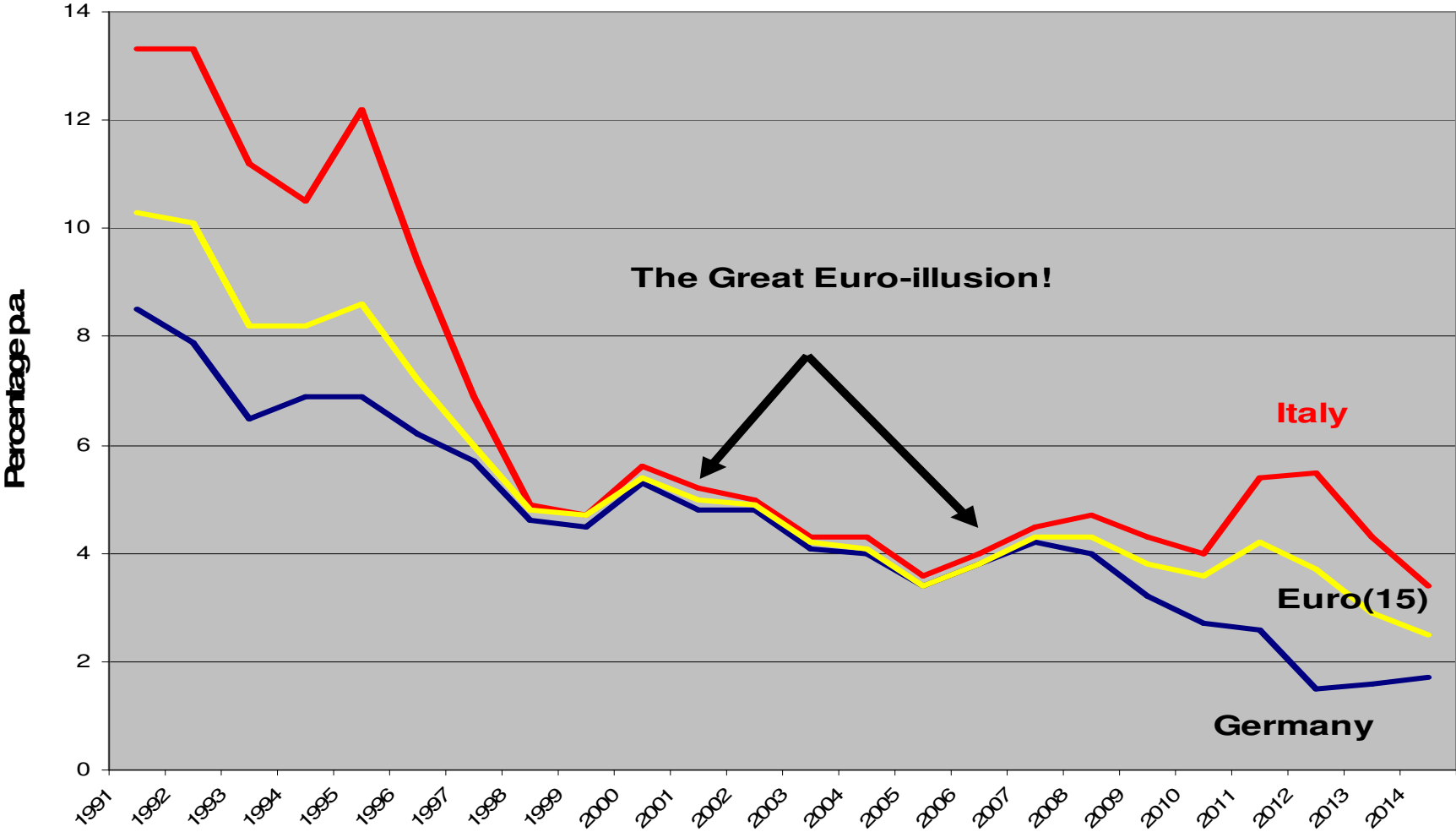
1. € 300 bill real and human investments each year!
2. Funded partly by surplus countries and partly by a financial transaction tax
3. Mainly directed to countries with above average unemployment

→ This could make the EU-economy alive!

**Thank you
for your attention**

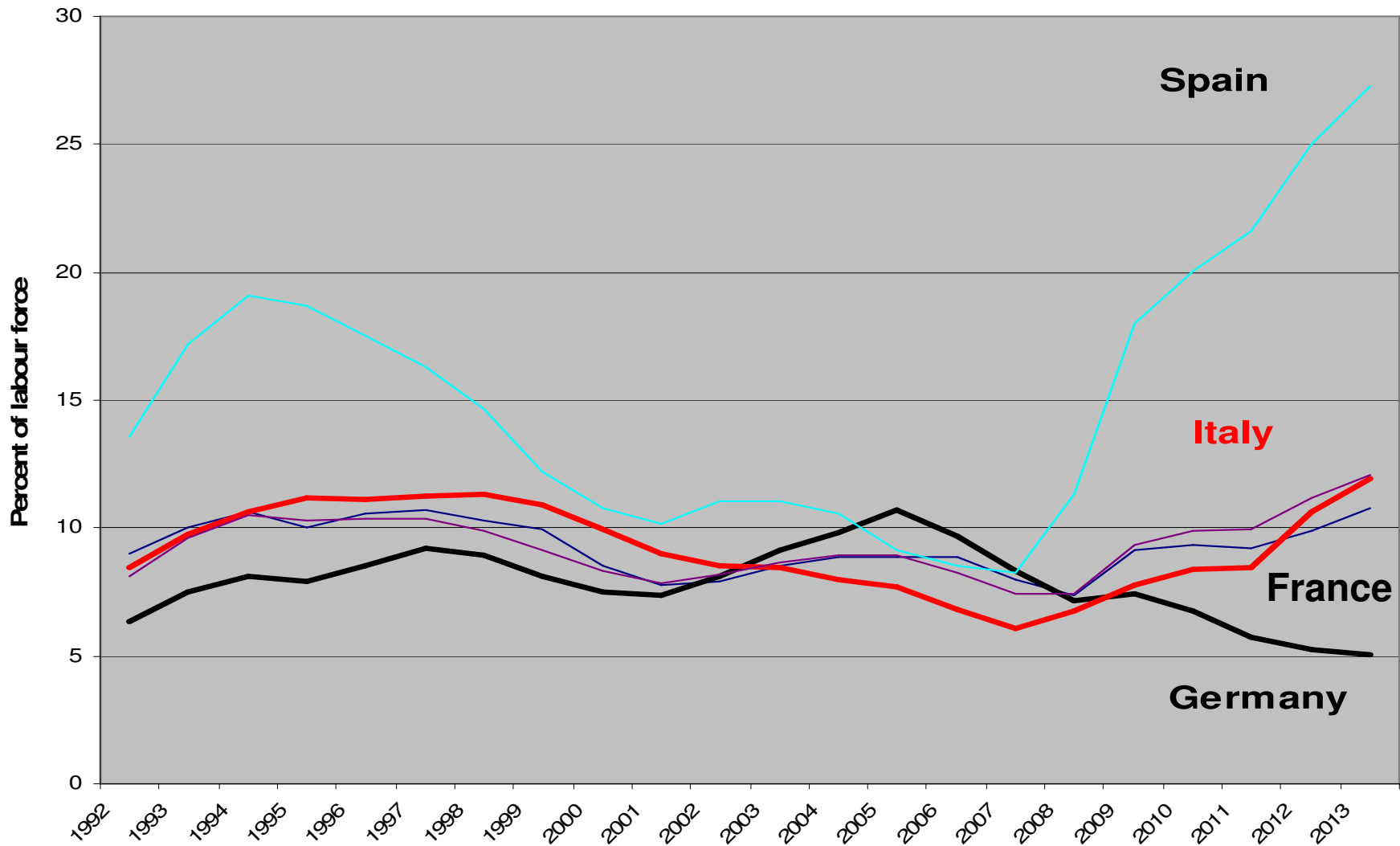
But, even the financial markets were fooled for a while

Long term rate of interest



Source: OECD, Economic Outlook, June 2014

Unemployment



Source: OECD, EC. Outlook, June 2013