Keynesian Macroeconomics for the 21st Century

INET – YSI Program at the Edinburgh Plenary Conference

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These lectures present a perspective on macroeconomics with the primary objective of understanding the dramatic events of recent decades, events that were entirely unforeseen from the perspective of mainstream macroeconomics as taught in most graduate programs. Throughout these three lectures, we will discuss the research process that led to the development of these ideas along with thoughts about issues that provide opportunities for further research.

1. *Foundations*. This lecture will summarize the theoretical foundation of Keynesian macroeconomics, that is, how demand conditions affect production and employment. We will consider several versions of Say's Law and how it fails in a monetary economy (the paradox of thrift). We will identify significant limitations to the mainstream interpretation of Keynesian macro: demand constraints on production arise from nominal rigidity and that wage and price adjustment eliminates demand effects on output. We will also discuss the limits of monetary policy as an alternative to wage and price adjustment. I will argue that neither of the two mainstream paradigms in macroeconomics ("new classical" equilibrium models nor "new Keynesian" models that rely on nominal rigidities) can adequately explain modern macroeconomic events, on both theoretical and empirical grounds, especially after the Great Recession and the subsequent sluggish recovery.

2. *Intrinsic Keynesian Dynamics: Sowing the Seeds of Crisis.* This session begins by describing basic features of an alternative macro framework in which demand can constrain aggregate economic activity beyond the "short run" of sticky wages and prices. According to what we will label the "intrinsic Keynesian perspective" demand creates the proximate constraint on aggregate output and employment most of the time, at least in recent decades in developed countries. Through the lens of Hyman Minsky's financial instability hypothesis, we will consider dynamic processes that led up to and triggered the 2008-2009 financial crisis and Great Recession. How was household demand generated in the years prior to the crisis? What was the role of rising household indebtedness and the credit system? What triggered the crisis?

3. *Macroeconomic Dynamics, Rising Inequality, and Secular Stagnation*. Following the Great Recession, recovery in the US and other developed countries has been sluggish. (An issue that played an significant role in the surprising outcome of the 2016 US presidential election and is also likely important in European populist movements.) We will lay out the empirical case for secular stagnation and explore how it relates to the dynamics of demand as emphasized in the intrinsic Keynesian perspective. We also discuss evidence that rising income inequality has created a drag on household demand growth that helps explain stagnation.