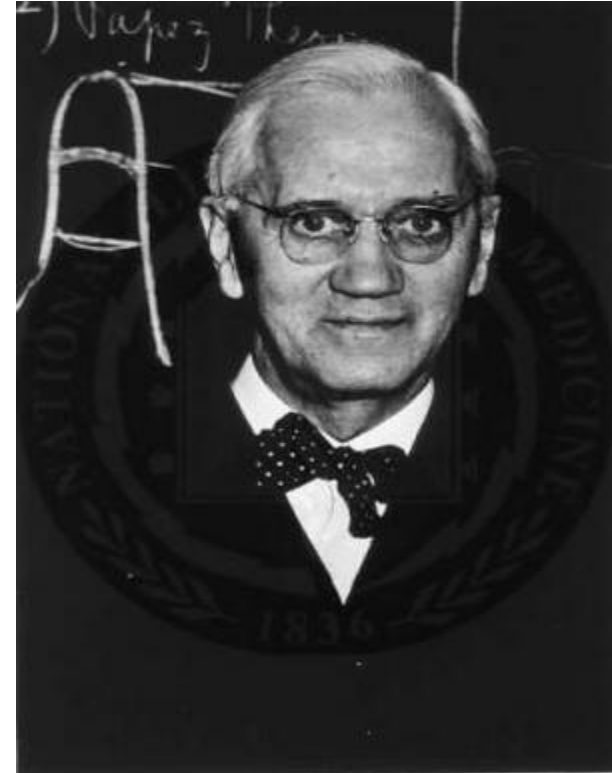
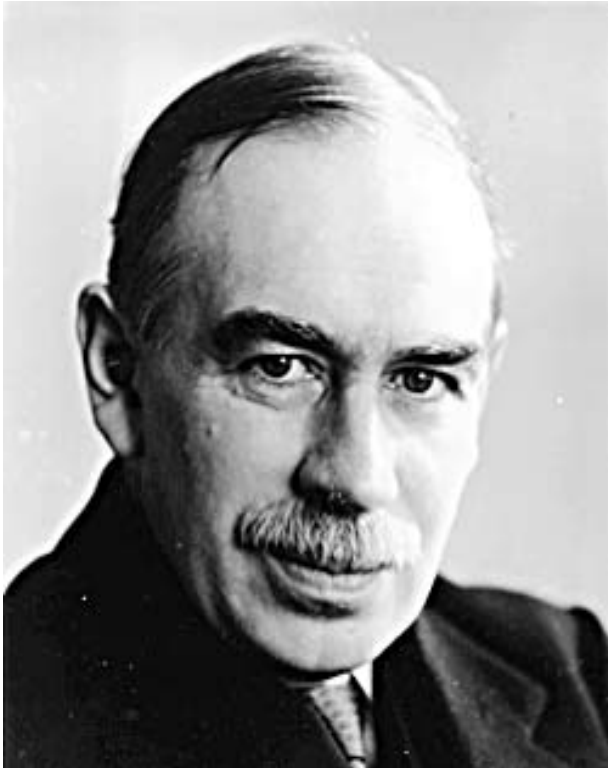


The Return of Keynesian Politics

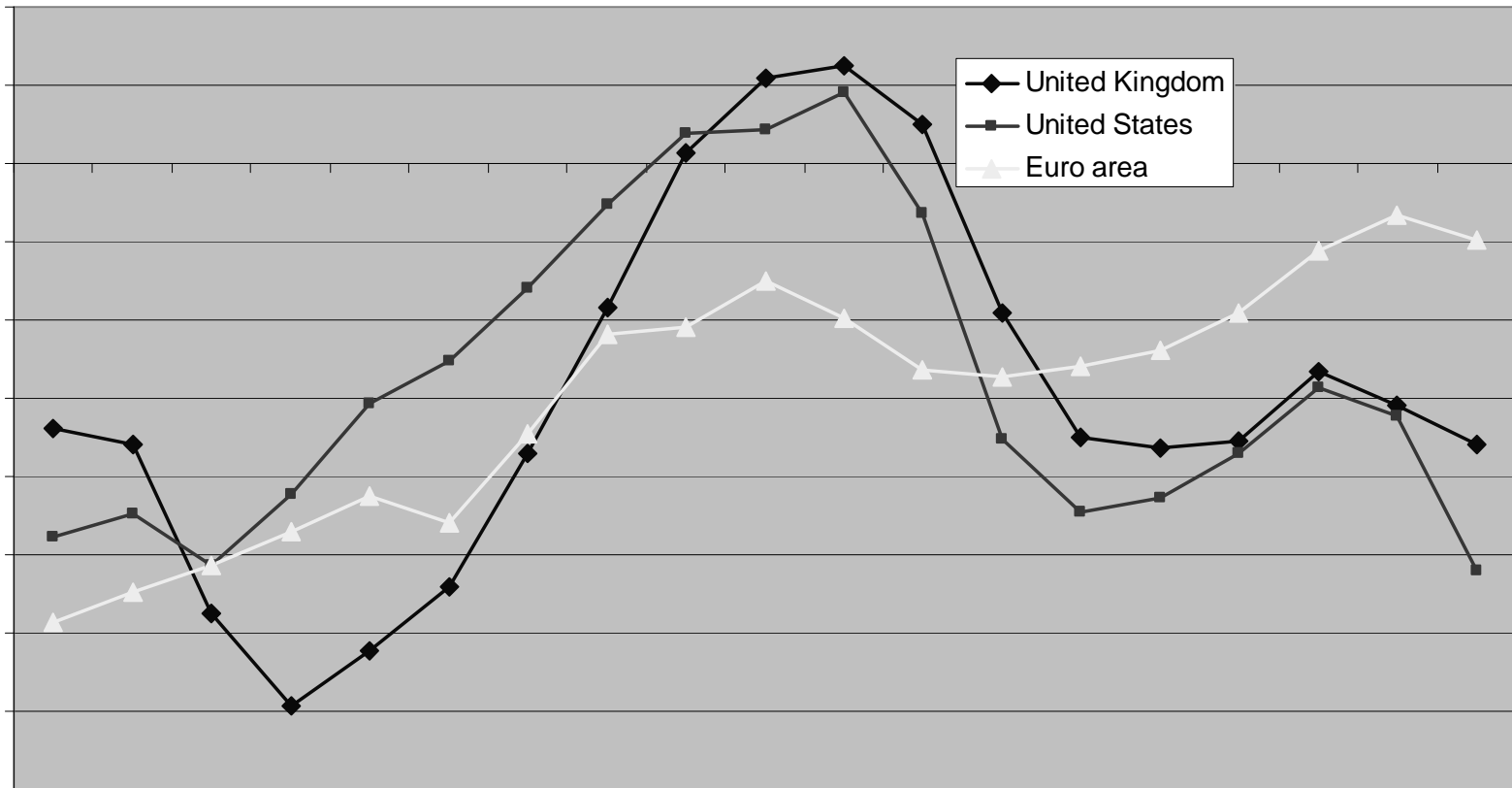
American Institute for Contemporary German Studies
Washington D.C., 2 July 2008

Peter Bofinger
University of Wuerzburg
German Council of Economic
Experts

John M. Keynes and Alexander Fleming

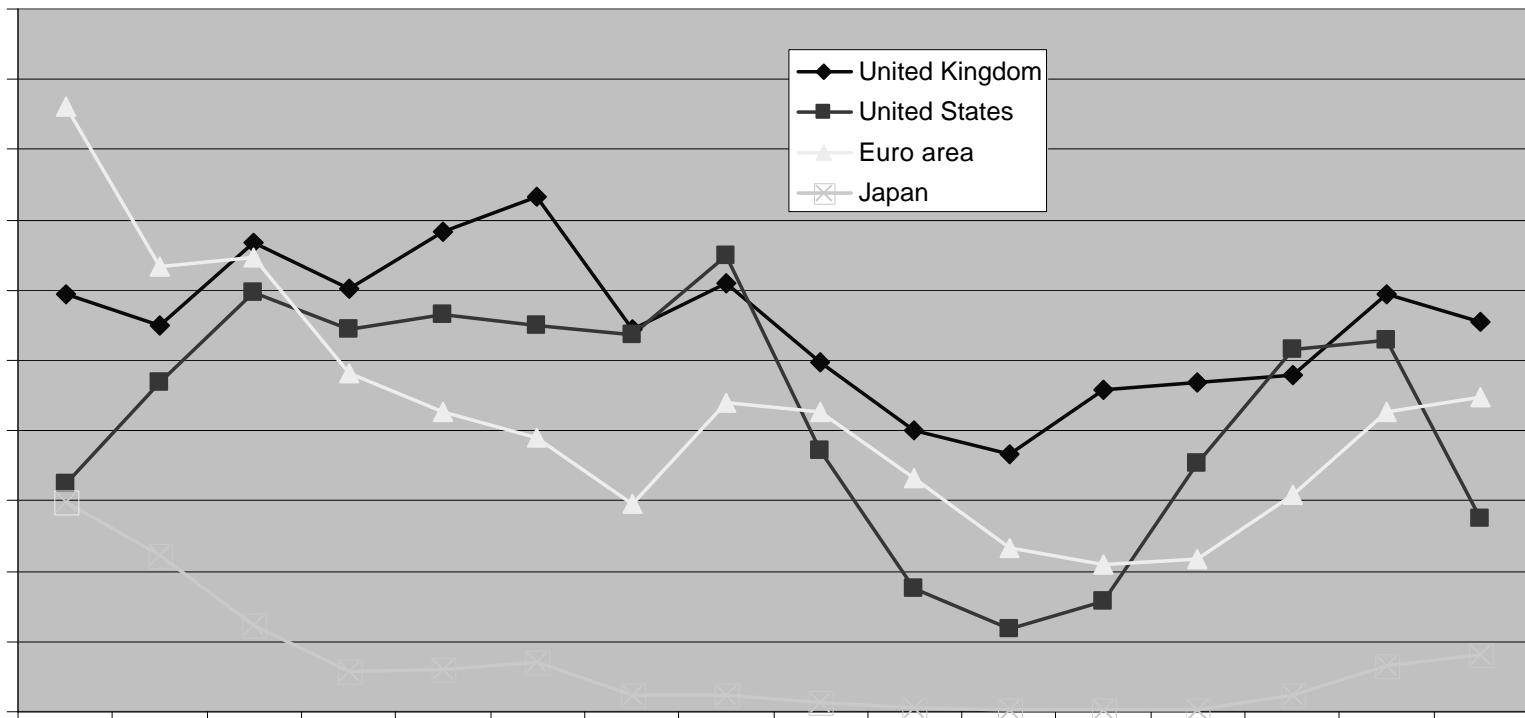


Were Keynesian fiscal politics absent?



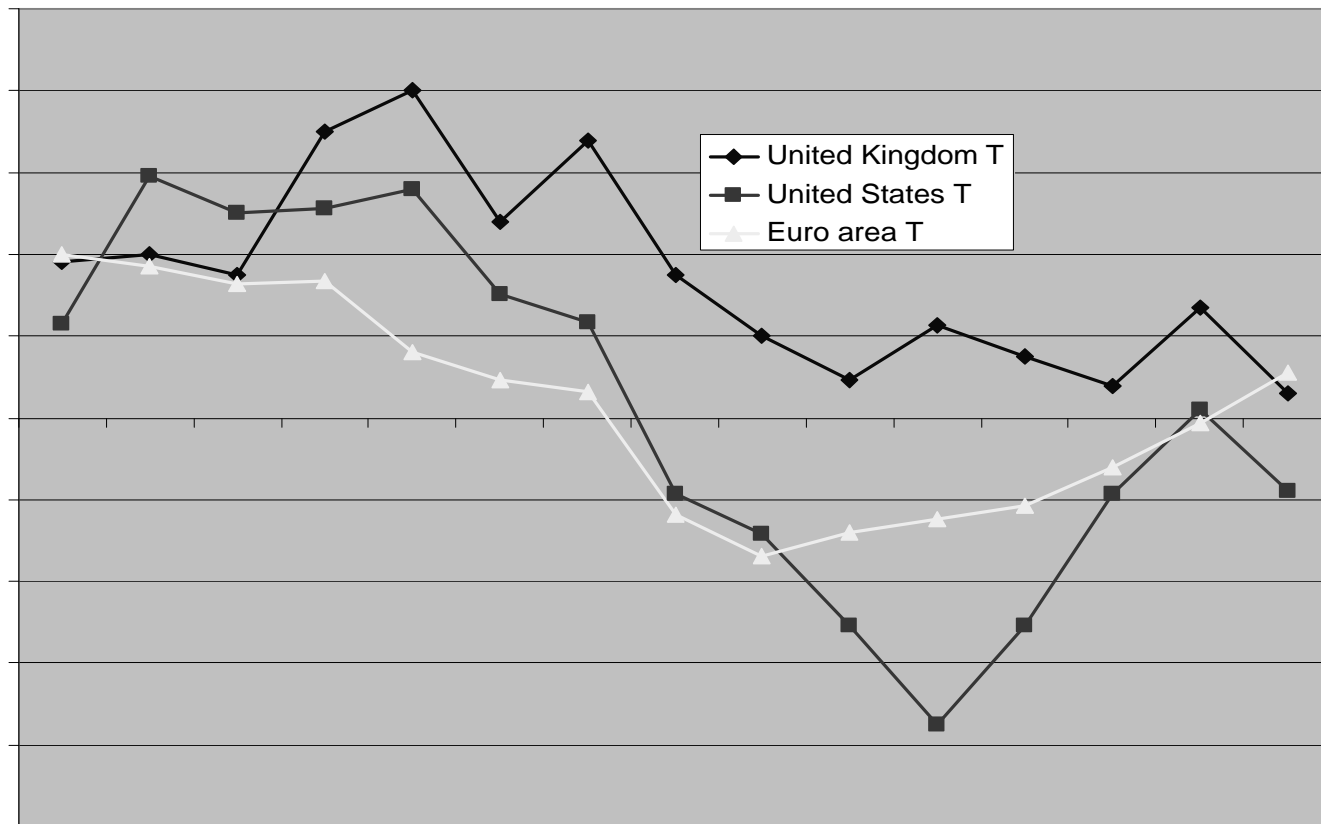
Structural deficit in % of GDP

Were Keynesian monetary politics absent?



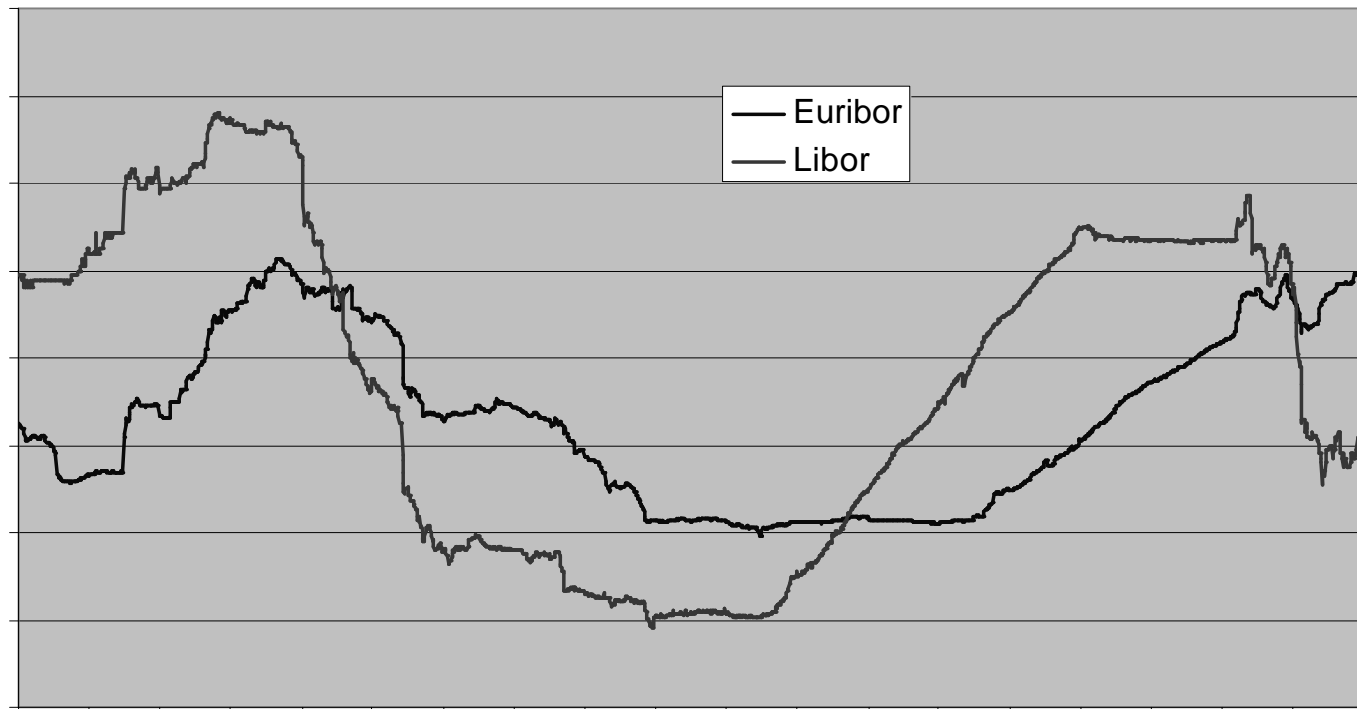
Short-term interest rates

Federal Reserve: Overdose of Keynesianism in 2004

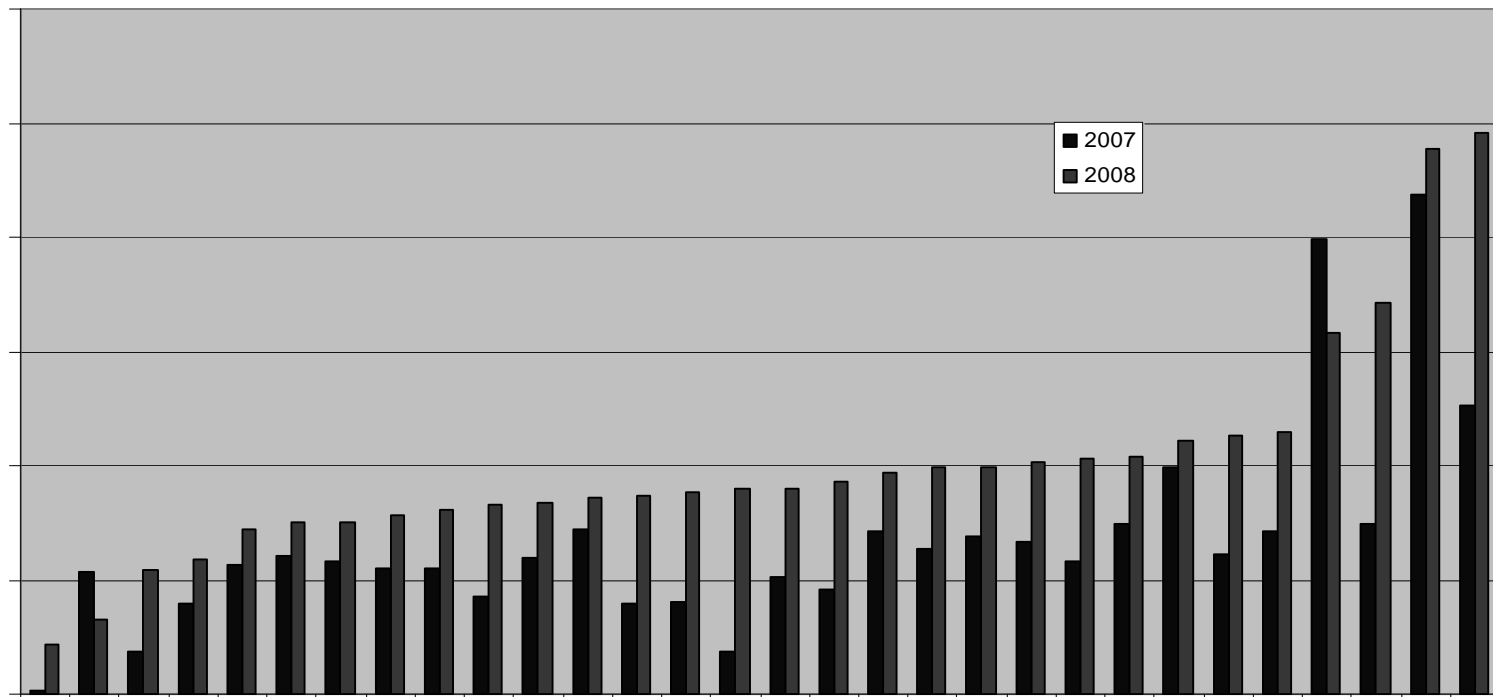


Deviation from Taylor interest rate based on GDP deflator (percentage points)

Different response to the crises

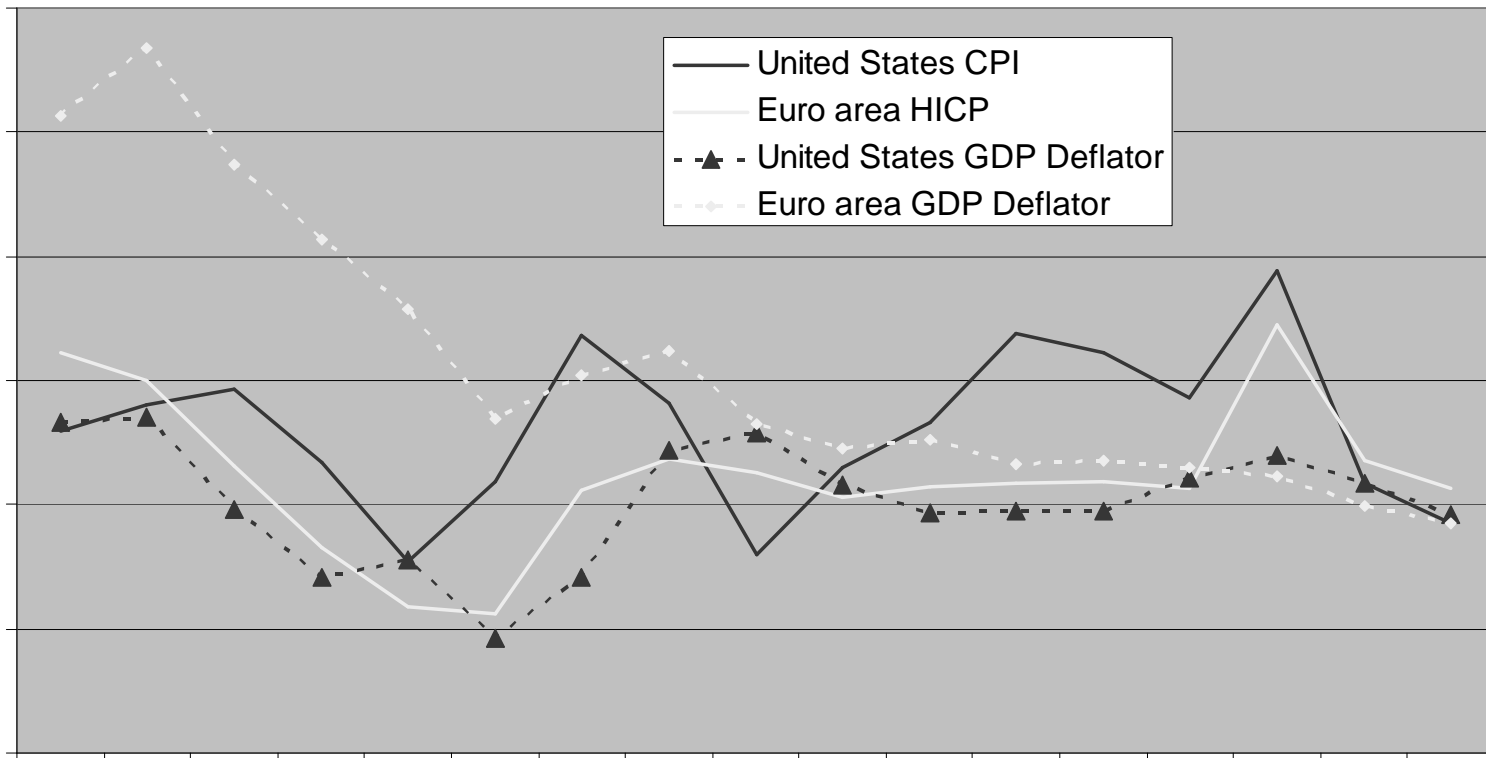


Another trade-off between inflation and unemployment?

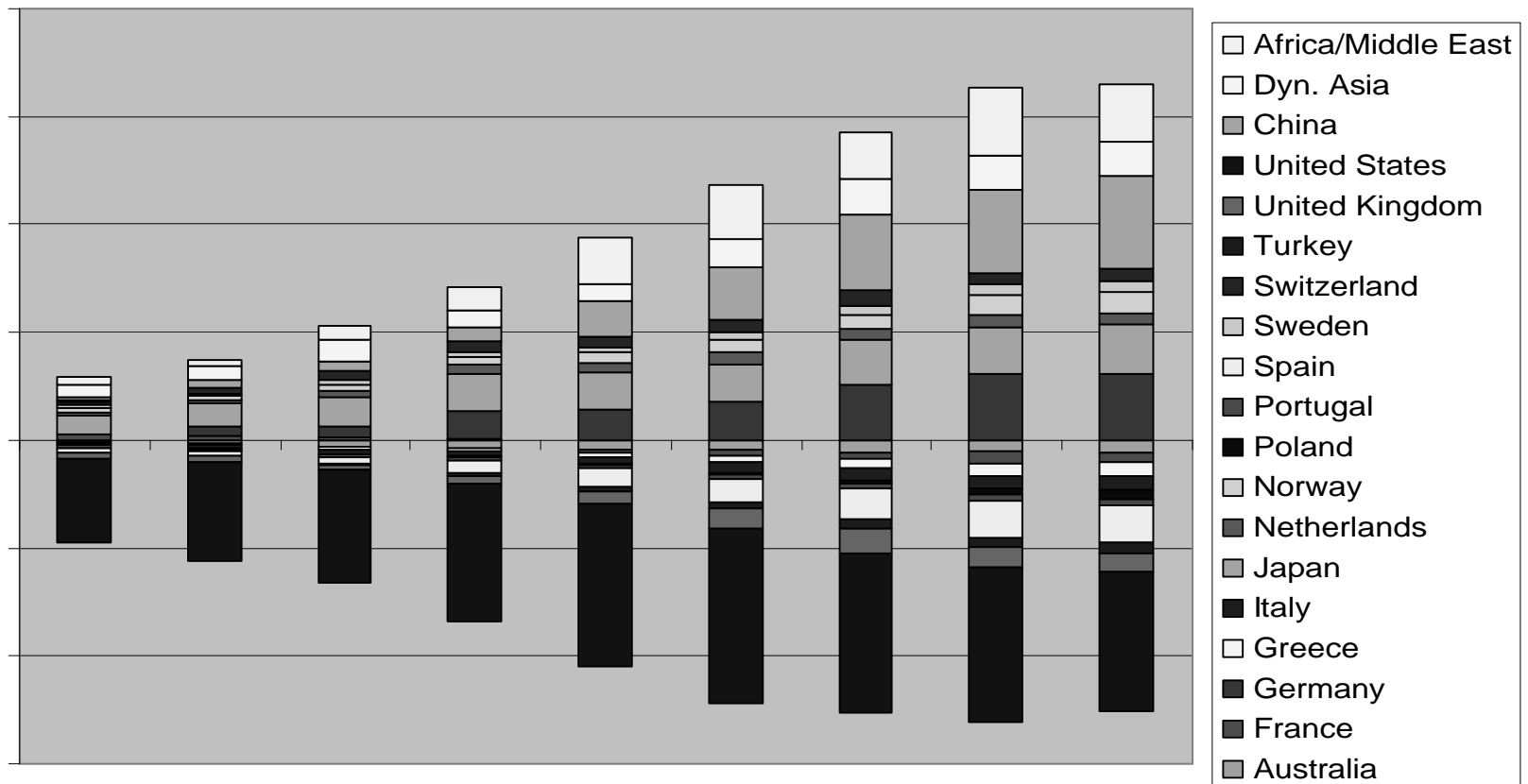


CPI inflation rate

Stagflation risk is very low

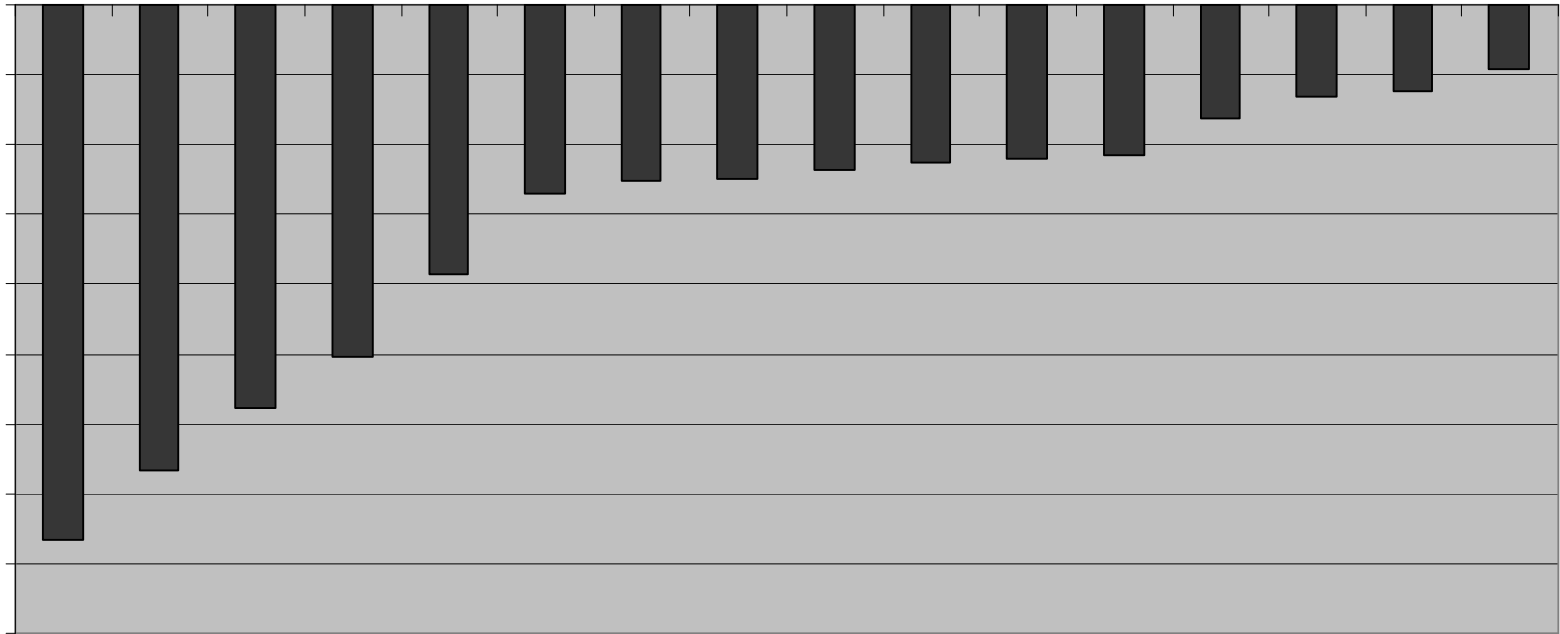


The Keynesian problem of international adjustment

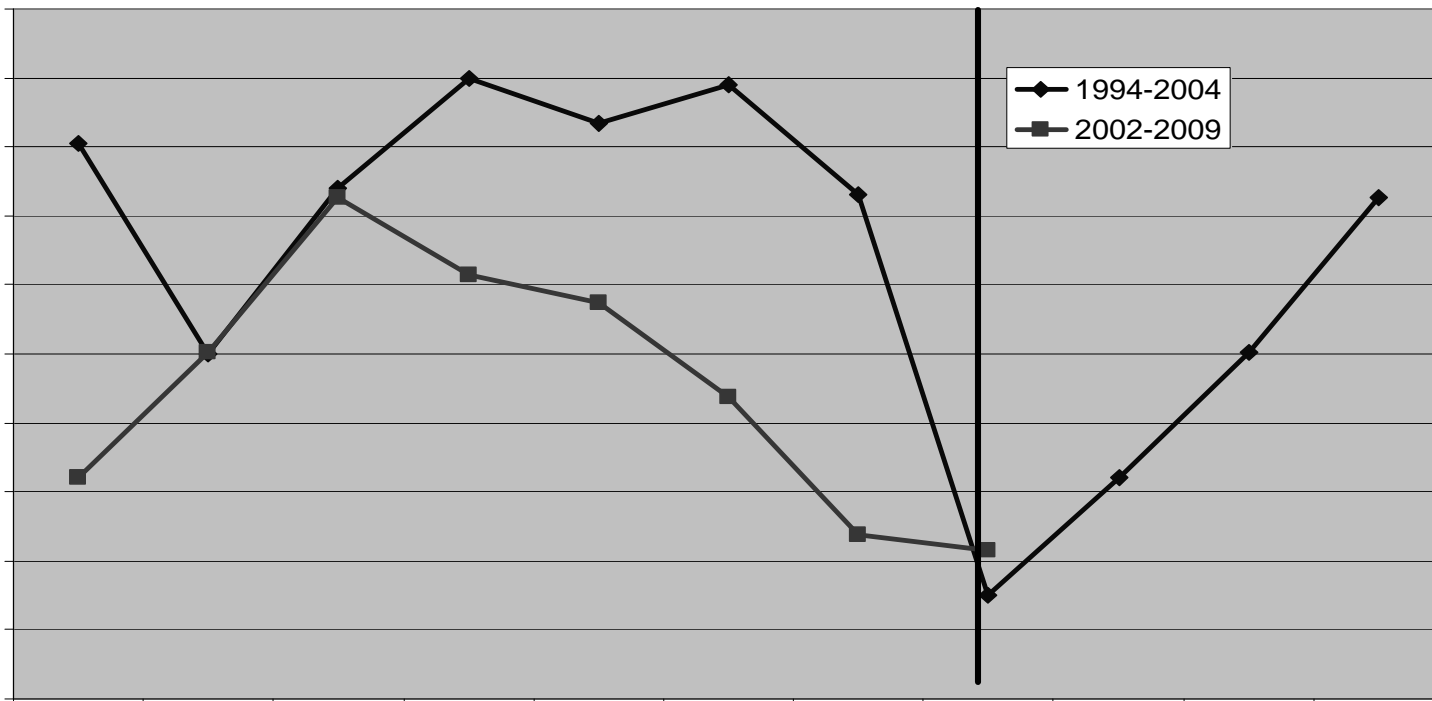


(US Dollar Billion)

The world's leading deficit countries

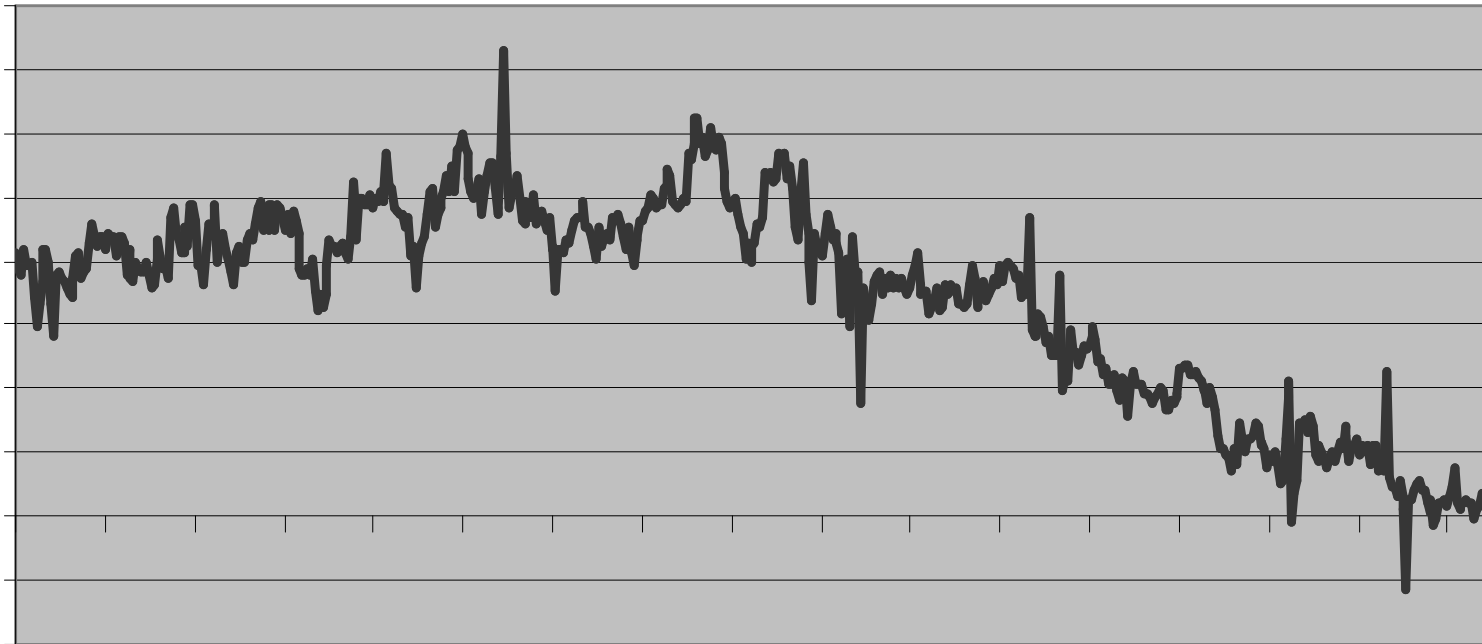


United States: Engine for growth in 2002, not in 2010



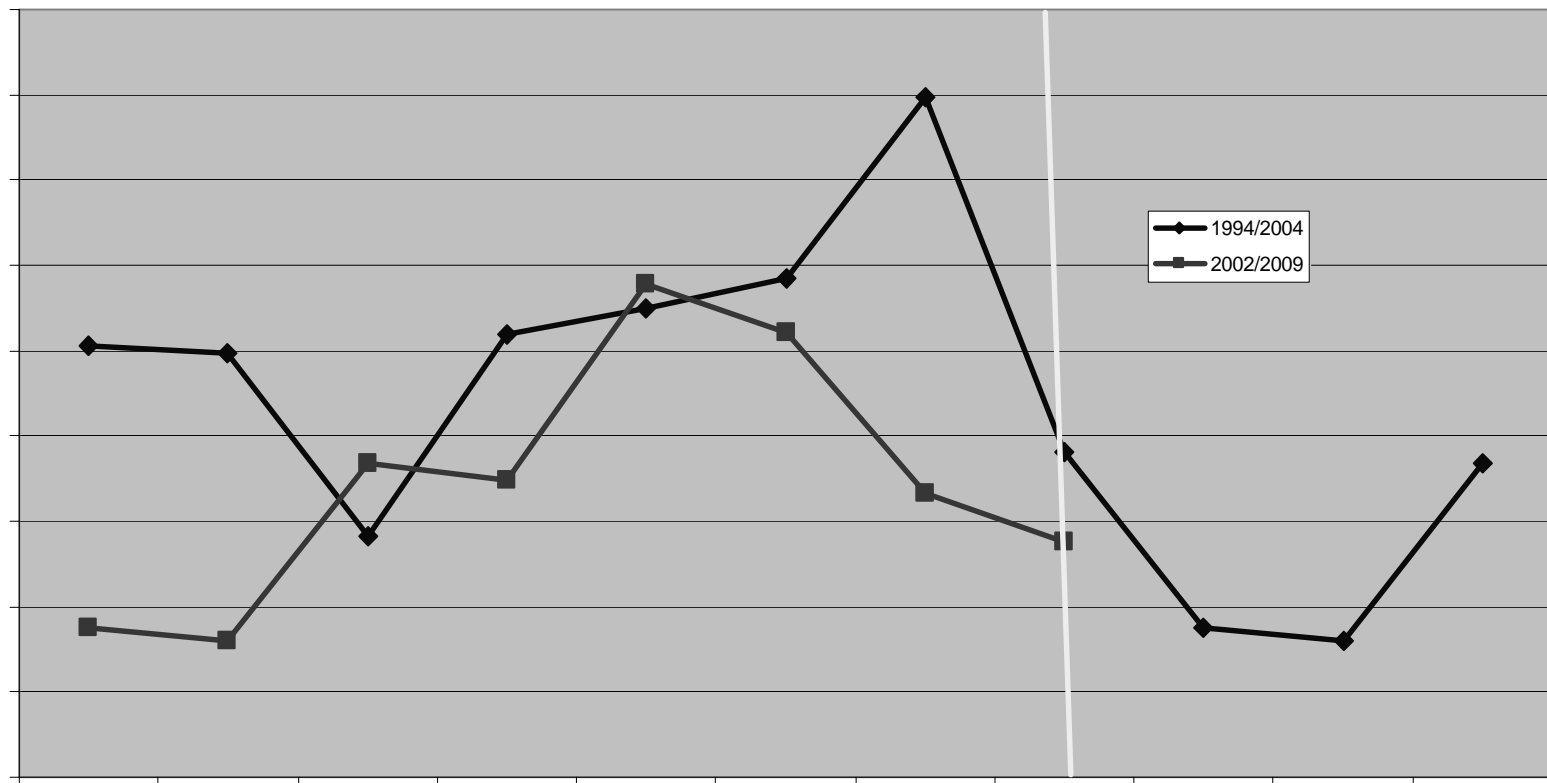
Growth rate of real GDP

US households savings were insufficient



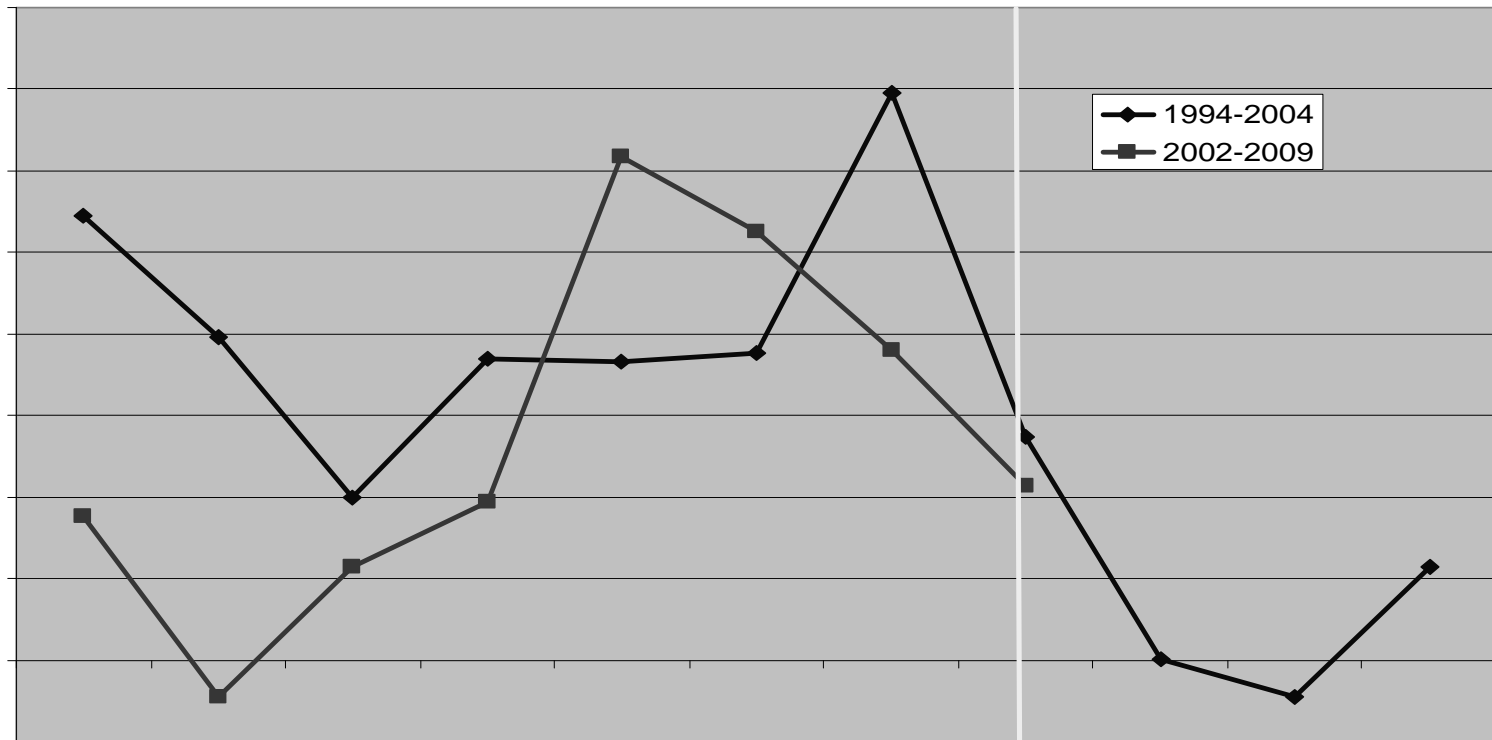
Savings rate (in %)

With restrictive ECB policy, Euro Area will be lagging behind



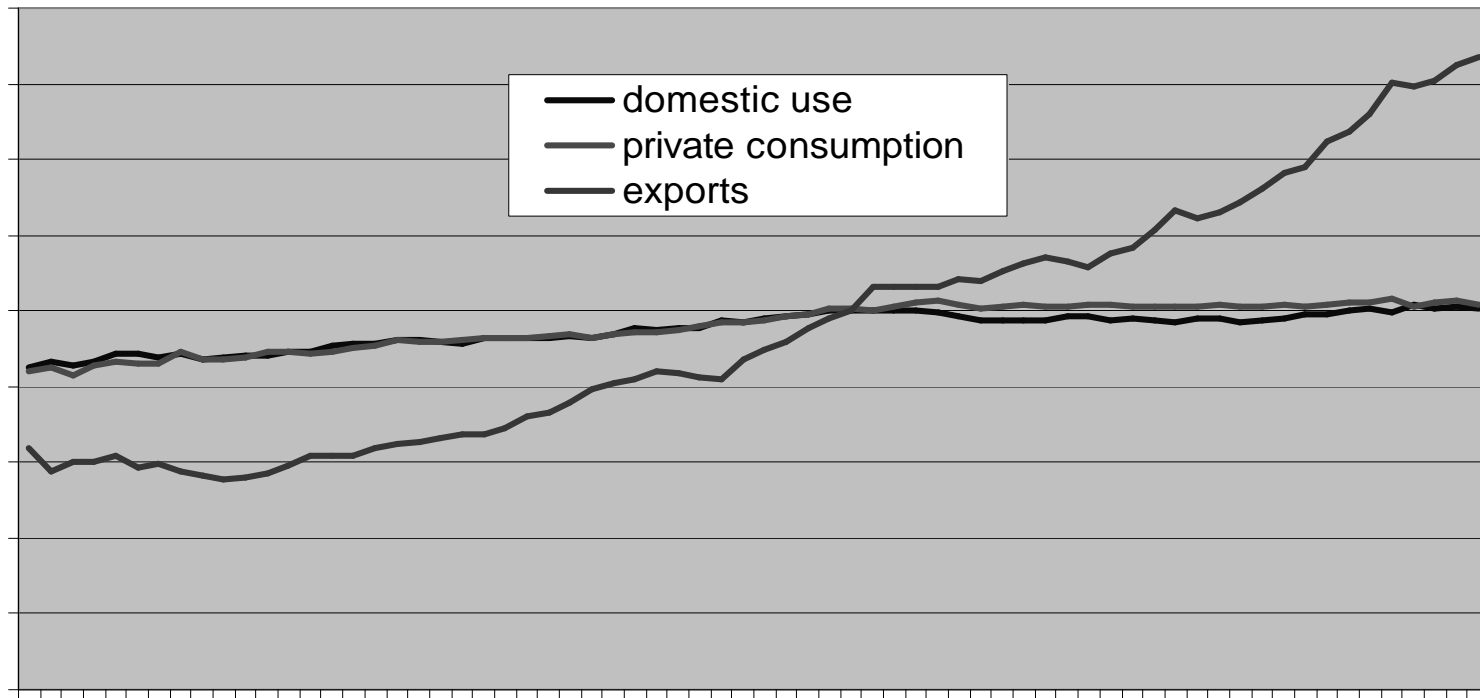
Growth rate of real GDP

Germany again „Johnny-come-lately“



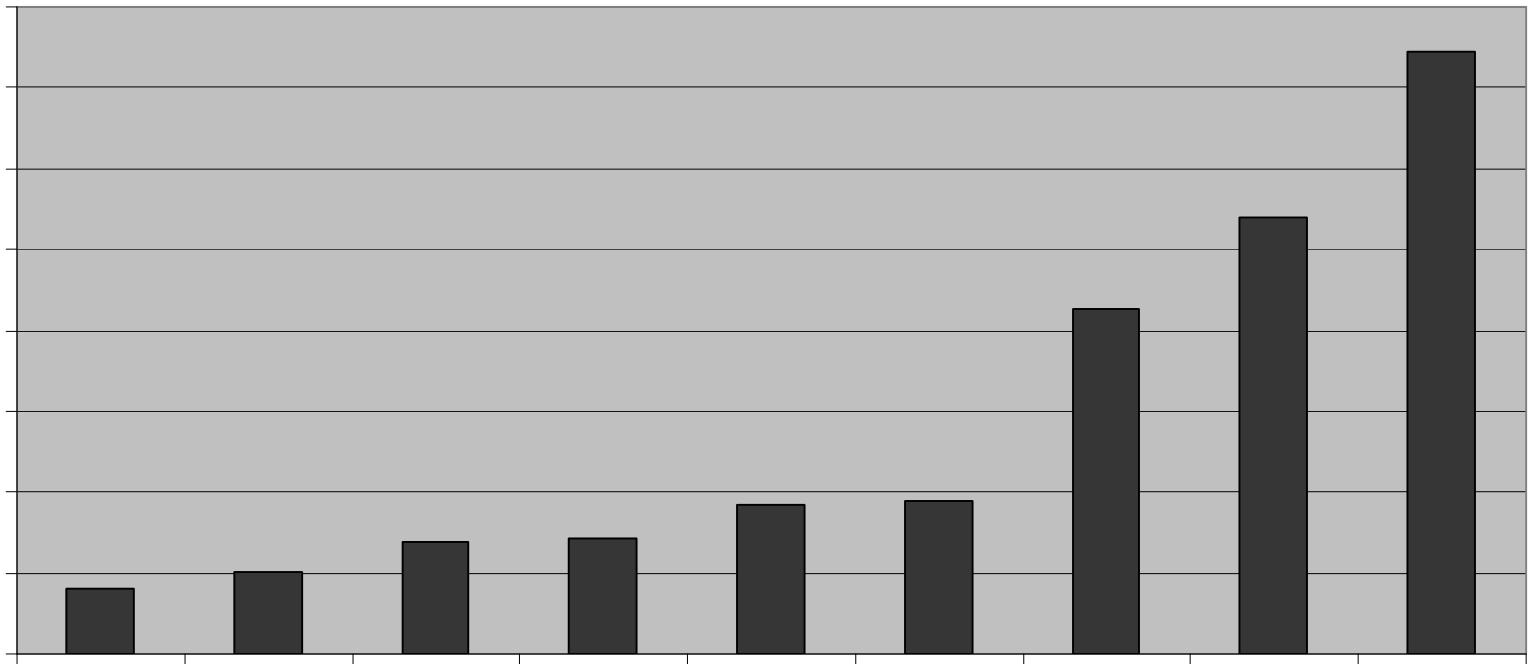
Growth rate of real GDP

Germany's „dual economy“



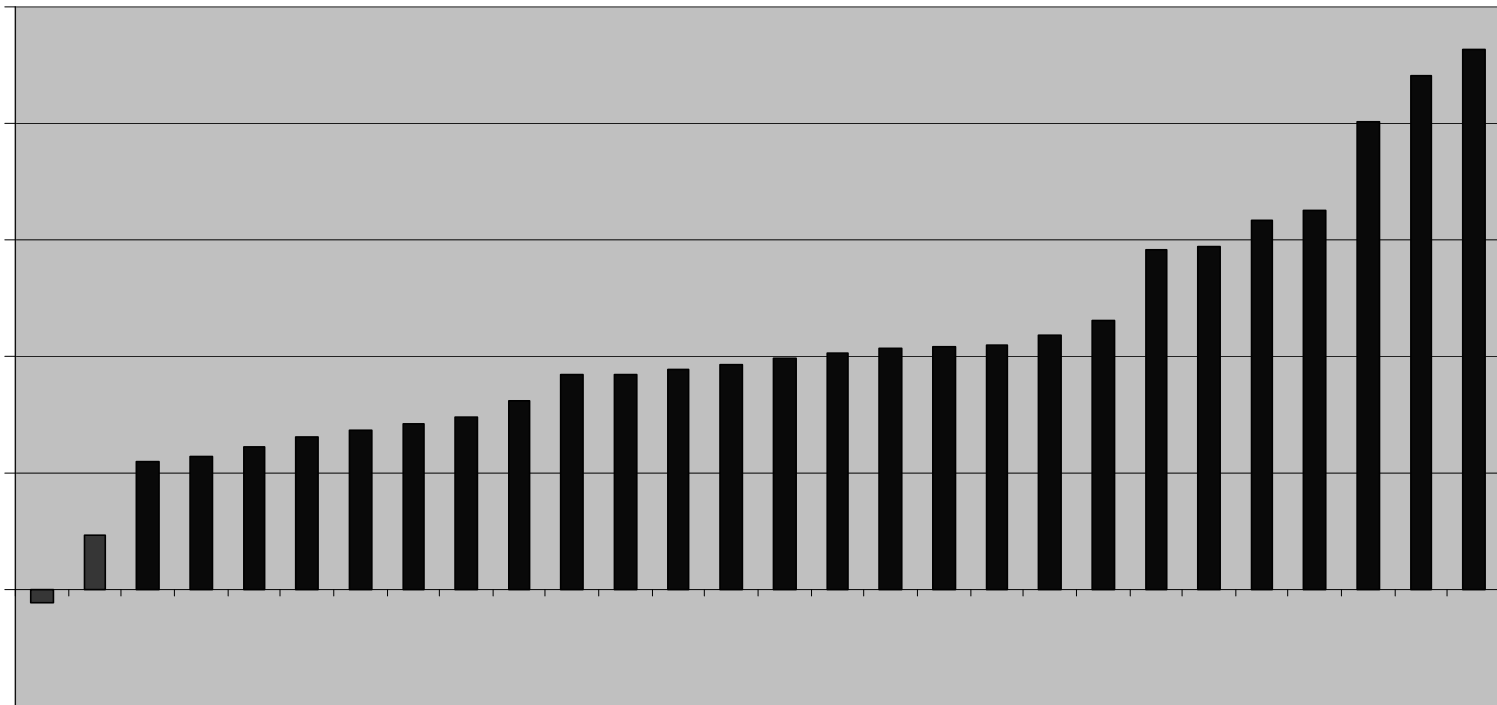
(2000 = 100)

The Keynesian solution: Growth initiative by the global super-savers



Current account surplus (Bio US-Dollar; most recent data)

Return to normal wage increases in Germany and Japan



Average growth rate of compensation per employee in the private sector (2004-2008)

Summary

- National level: Keynesianism is alive and was never dead
- Euro area level: Keynesianism has been absent in the area of fiscal policy
- Global level: Keynes' views on international adjustment are very topical, but they need to be revived