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***Why are Keynesian multipliers bigger in hard times?***

***A Palley-Aftalion-Pasinetti explanation***

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***Abstract***:

The Great Recession has led to renewal interests in Keynesian economics. In a first time, Keynesian remedies, consisting in increased public spending during the slump so as to avoid depression, have been applied. But, in a second time, especially in the eurozone, international organizations (IMF, OECD, European Commission) have advocated fiscal austerity in order to deal with the so-called sovereign debt crisis. Confronted with the brutal economic slowdown following the fiscal tightening, these international organizations suddenly realized that the value of Keynesian multipliers was bigger than expected, and so that austerity policies led to recession harder than expected. Then, numerous studies tried to explain why Keynesian multipliers are bigger in recession.

This paper weighs in this debate while suggesting a plausible explanation, based on simple Keynesian macroeconomics. To put it in a nutshell, it seems to us that the main cause of increased multipliers in recession refers to a drop in import propensities.

In a first part, we provide historical data showing how import propensities have declined during recessions. Then, in a second part, we build our explanation for this reduction in import propensities, while using the works of Thomas Palley, Albert Aftalion and Luigi Pasinetti. From Thomas Palley, we use his decomposition of the multiplier according to imports’ utilizations in aggregate demand. From Albert Aftalion, we use his accelerator model for investment. From Pasinetti, we use his saving equation with different propensities to consume out of incomes according to social groups. Thanks to the combination of these three authors, we are able to explain why the propensity to import is lesser during a recession, and so why the multipliers are bigger in hard times.

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