

Debt, inflation and employment after the pandemic

Type: Blockseminar

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Participants: P&E Bachelor, P&E Master, BA IWB, BA Economics, MA IWB, MA Economics

Lecturers: Marco Meyer, Carsten Jung

Dates: 27-29 November

Start-time: 27 November, 12.00 s.t.

Overview Deadlines & ToDos

Deadline for applying for a presentation: 9 October

Please send an email with your preference of topic(s) to marco.meyer@york.ac.uk

Deadline for submitting reading questions: 23 November

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Seminar Description

Government spending and central bank actions are fundamental drivers of economic activity. These so-called macroeconomic policies influence every part of the economy, ranging from the labour market, to the housing market to business investment. For a long time, the core laws of macroeconomics seemed clear.

But the 2008/09 financial crisis and the Covid-19 pandemic upset the established consensus, triggering new and unconventional actions. Economies around the world grew slowly over the last decade, and the pandemic has plunged them into deep recessions. Mass unemployment is a real risk and many are worried good growth might not return. Governments have acted boldly to turn the tide. For instance, hitherto spendthrift governments like Germany have swapped the '*Schwarze Null*' for large-scale government borrowing and investment programmes, resulting in huge increases in public debt. Central banks are not only buying a lot of this government debt. But they are also considering setting negative interest rates, which would in effect mean asking savers to pay for saving money. There is much disagreement about which approach is the right one, how much to borrow and when to stop.

In this seminar, we will try to make sense of this extraordinary situation. We will learn what different paradigms say about these policies, and how to choose. We will do some hands-on data analysis to help us in this quest and we will ask if social justice considerations ought to play a role in picking the right policies. Building on this, we will ultimately ask: what is our policy advice to the German finance minister and the head of the Bundesbank to get the German economy back on track?

Lecturers

Marco Meyer

Marco is a Leverhulme Early Career Fellow at the University of York. Has a PhD in philosophy from the University of Cambridge and a PhD in economics from the University of Groningen. He received a Master's degree in philosophy from Oxford University, a BA degree in Philosophy & Economics from Bayreuth University, and a BA in European History from Bayreuth University. His research interests include financial ethics, applied epistemology and global justice. He has taught students at the universities of Oxford and Cambridge and has given seminars on philosophy and economics.

Carsten Jung

Carsten is a senior economist at the Institute for Public Policy Research (IPPR) in the UK. He leads their work on macroeconomics and structural economic change. Before he was an

economist at the Bank of England's Fintech Hub, where he led the work on artificial intelligence. Prior to that, he worked on policy issues concerning the global financial vulnerabilities and systemic risks from climate change. He holds a BA in Philosophy & Economics from Bayreuth, an MSc in Economics from Warwick University and an MSc in Economic Sociology from LSE. He was also a Carlo-Schmid intern at the International Monetary Fund.

Learning Goals

- Predict the impacts on different stakeholders of different macro-economic policies in reaction to the corona crisis.
- Understand what drives the uncertainty about the impacts of macro policies on debt and unemployment.
- Reflect how social justice should impact our choice of macro-economic policies.

Agenda

Friday: What is happening now?

12.00 (we start s.t.)	Introduction
13.00	Impact of the Corona crisis on the economy
14.30	How have states reacted for far?
16:15	Macro-paradigms I: Debt, Inflation & Employment
18.00	End

Saturday: Analysing policy options

09.00 (we start s.t.)	Macro-paradigms II: Where do we stand after the financial and corona crises?
13.15	Lunch
14.45	What are the financing needs of Germany to make it out of the Corona crisis? I
18.00	End

Sunday: Your advice to the finance minister

09.00 (we start s.t.)	What are the financing needs of Germany to make it out of the Corona crisis? II
10.45	Public debt sustainability
11.30	Bringing it all together - developing policy proposals for Germany
12.15	Lunch
13.15	Presentations I
14.00	Presentations II
15.00	Feedback
16.00	End

Readings and Discussion

Note: Some of the readings are difficult. Rather than giving you watered-down readings, we want to encourage you to develop a reading skill that will become very handy in your academic life: extracting relevant information and arguments from very difficult texts. Always keep the respective reading question in mind while reading, and focus on getting an answer to that question out of the text. Do not despair if there are parts of the readings that you don't understand. Make a note and ask during the seminar.

All readings labelled 'additional readings' are background readings in case you want to dig deeper. We do not expect you to have read these.

Session 1: Impact of the Corona crisis on the economy

Why?: To understand why states are piling up debt, we first need to get a grip on the size of the impact of the pandemic on the economy.

Required Reading: CBPP Chart book: Tracking the Post Great Recession Economy

Reading question: Describe one statistic (a key data point or chart) from the reading or another source that captures the economic consequences of the corona crisis for you, and say why it does.

Additional Readings:

- <http://gemeinschaftsdiagnose.de/>
- [IMF Blog](#)
- [Bundeswirtschaftsministerium](#)

Session 2: How have states reacted for far?

Why?: With a good understanding of the impact of the pandemic on the economy, we next need to understand what states are doing to counteract the negative effects of the pandemic.

Required Reading: FT - Can the German economy pull Europe out of the coronavirus crisis?

Reading question: How does Germany's economic policy response to the pandemic differ from the responses of other states?

Additional Readings:

- [IMF report](#)

Session 3: Macroeconomic paradigms I

Why?: The 2008/09 financial crisis and the Covid-19 pandemic upset the established consensus in macroeconomics, triggering new and unconventional actions. In this session we will start discussing some of the underlying trends and how the pandemic plays into them.

Required Reading:

- The Economist 2020a - Starting over again [newspaper article]
- Textbook chapter on [monetary policy](#) [short explainer]
- Summers 2014 - U.S. Economic Prospects: Secular Stagnation, Hysteresis, and the Zero Lower Bound

Note: all these readings are hard. We will spend much of the seminar understanding better the concepts underlying them. So don't despair if you don't understand everything & focus on getting a general sense of the arguments. Also feel free to write down questions you have - we can then pick them up in the seminar.

Reading question: What has changed in macroeconomics since the financial crisis 2008/09. And what are the implications - if any - for policy making?

Additional Reading:

- Summers & DeLong 2012 - Fiscal policy in a depressed economy
- The Economist 2020b - Governments can borrow more... [newspaper article]

Session 4: Macroeconomic paradigms II

Why?: For a long time monetary policy was seen by many as the main tool for macro stabilisation. Now everybody is talking about fiscal policy, aka government spending. In this session we will explore why this has changed and what it means in practice.

Required Reading:

- Blanchard 2019 - Public Debt: Fiscal and Welfare Costs in a Time of Low Interest Rates
- Rogoff 2020 - Falling interest rates, rising debt: a free lunch?

Reading question: What do falling interest rates mean for government debt? Where do Rogoff and Blanchard disagree?

Additional Reading:

- Blanchard 2019 - Public debt and low interest rates
- Mauro, P and J Zhou (2020), "r - g < 0: Can We Sleep More Soundly?", IMF Working Paper 20/52, International Monetary Fund, Washington, DC.

Session 5: What are the financing needs of Germany to make it out of the Corona crisis?

Why?: We want to understand what drives different views in what states must do now to make it out of the economic crisis. We'll split the class in four groups, and each group will assume a different perspective:

Required Reading:

- **Group A:** [IMF Perspective: Fiscal policies for the recovery from Covid-19](#)
- **Group B:** [Finance Watch: Debt sustainability and a sustainable COVID recovery](#)
- **Group C:** [McKinsey: Closing the 30 trillion gap](#)
- **Group D:** [DezernatZukunft: Ideas After Corona](#)

Group Allocations [here](#).

Reading question: Expressed in a simple way, what are some of the implicit goals reflected in the proposal(s) made in your report? to what end does the EU invest all this extra money, why in this way, and why not even more of it?

Additional Reading:

- EU - Assessment of economic and investment needs
- EU - Assessment of public debt sustainability and COVID-related financing needs of euro area Member States

Session 6: Public debt sustainability

Why?: Keeping public debt sustainable is a key constraint on government spending. In this session we will explore what is commonly meant by 'debt sustainability'. We will explore a challenge to this view that looks at how debt could be financed by the central bank and thus even not actually be paid back.

Required Reading:

- Debrun et al (2019) - Debt sustainability [read up to page 22]
- Turner (2015) - The case for monetary financing [read the whole article, read proposition 4' particularly carefully]

Reading question:

1. Have a long, careful look at equation (3) in the Debrun text. What does it tell us about the key drivers of public debt?
2. In what way does Turner's argument challenge the traditional view of public debt sustainability? [This is a hard question so don't despair :-)]

Additional Reading:

- [Dezernat Zukunft - 3 perspektiven auf Staatsanleihen](#)

- Jordi Galí, *The Effects of a Money-Financed Fiscal Stimulus*
- Catao 2004 - Inflation and fiscal deficits

Session 7: Approaches to addressing the debt burden

Why?: There are different ways of dealing with growing government debt. States might try to “inflate it away”, attempt to repay it, or just live with the debt burden. These different strategies can have an enormous influence on life chances for citizens. In this session we try to understand the risks and benefits attached to different strategies.

Required Reading:

- **Group A:** [Fee -- Hyperinflation: Lessons from South America](#)
- **Group B:** Living with high unemployment: [Guardian](#) and [Pew](#)
- **Group C:** Living with high debt & low growth: Economist - Did abenomics work?

Group Allocations [here](#).

Reading question: What strategy for dealing with sovereign debt may lead a country to the situation described in your respective reading? What are the potential benefits and downsides associated with this strategy?

Additional Reading:

- Reinhart/Rogoff: Financial and Sovereign Debt Crises: Some Lessons Learned and Those Forgotten
- Yared 2019 Rising Government Debt Causes and Solutions for a Decades-Old Trend

Presentations

There are five presentations. Three of them discuss policies that we want to assess on Sunday according to their efficacy and their justice.

Presenters giving excellent presentations receive a 0.3 bonus on their essay mark.

Here is what an excellent presentation looks like:

- Explains how the policy works in a clear and vivid manner
- Explains the impact on reaching climate goals in a concrete way
- Explains who benefits and who carries the burden of the policy
- Takes no longer than 10min

Please feel free to share any handouts, slides or other material before the seminar to get feedback.

Deadline for applying for a presentation: 9 October

Please send an email with your preference of topic(s) to marco.meyer@york.ac.uk

Presentation 1: 1-slide presentation on Okun's law

Why?: This presentation is about explaining the relationship between GDP growth and employment in one slide (that's not overloaded), and do so in 2 minutes.

Starting point: <https://core-econ.org/the-economy/book/text/13.html#132-output-growth-and-changes-in-unemployment>

Presentation 2: 2-slide presentation on the fiscal multiplier

Why?: This presentation is about explaining what fiscal multipliers are in 2 slides, sticking to 5 mins. Answer the question: what is the key idea behind the 'fiscal multiplier'? And why does it matter for the current context?

Starting point: <https://core-econ.org/the-economy/book/text/14.html#142-the-multiplier-model>

Presentation 3: Summarize the policy response to the pandemic in the EU/Eurozone. Give an overview of both the fiscal response and the monetary and macro-financial response.

- Use the Euro area subsection in [this IMF report](#) as your main source, which you can supplement with other sources as needed.
- Stick to 10 min presentation time
- Don't focus on details, but paint the big picture: what has the EU/Euro area done, what does it cost, and how does the response compare to the response to the financial crisis of 2008/9?
- Focus on building intuitions about magnitudes. Put each number you give in perspective, for instance by comparing the size of the fiscal response to the overall GDP of the EU.

Presentation 4: Summarize the policy response to the pandemic by Germany. Focus on the fiscal response (as monetary policy is covered in EU/Eurozone presentation).

- Use the Germany subsection in [this IMF report](#) as your main source, which you can supplement with other sources as needed.
- Stick to 10 min presentation time
- Don't focus on details, but paint the big picture: what has Germany done, what does it cost, and how does the response compare to the response to the financial crisis of 2008/9?
- Focus on building intuitions about magnitudes. Put each number you give in perspective, for instance by comparing the size of the fiscal response to the overall GDP of the EU.

Presentation 5: Summarize the policy response to the pandemic by the US. Give an overview of both the fiscal response and the monetary and macro-financial response.

- Use the US subsection in [this IMF report](#) as your main source, which you can supplement with other sources as needed.
- Stick to 10 min presentation time
- Don't focus on details, but paint the big picture: what has the US done, what does it cost, and how does the response compare to the response to the financial crisis of 2008/9?
- Focus on building intuitions about magnitudes. Put each number you give in perspective, for instance by comparing the size of the fiscal response to the overall GDP of the EU.

Assessment

Attendance-only "Schein" (PE: 2 ECTS): You need to (1) do the readings, (2) do the problem set, (3) participate actively in the seminar

Essay "Schein" (PE: 6/8 ECTS): You need to (1) do the readings, (2) do the problem set, (3) write an essay (4.000-5.000 words). If you give a presentation, this will feed into your grade as well.

Essays

Topics: We'll run a short session on possible seminar topics during the Blockseminar, and point out possible seminar topics during the seminar. You are encouraged to come up with your own topics.

General Guidelines

- Between 4,000 and 5,000 words
- English or German
- Before you start writing, look at this essay writing guide: <http://www.phil.cam.ac.uk/curr-students/IA/curr-students/writing-skills/>
- Re-read and revise before submitting. Ask a friend to read your paper.
- We set a deadline for the essay with students individually to fit their needs.

General Structure

- Define and answer a precise research question (check with us!), give a clear answer to the question which you state in the introduction (your thesis), and use your essay to defend that answer.
- Structure essay according to thesis: No paragraph and indeed no sentence that does not help to investigate the thesis belongs in the essay.
- When developing an argument, state premises and conclusion clearly.
 - Make sure the argument is valid
 - Anticipate objections to your premises and discuss in the essay
- When using empirical data, explain and scrutinize it
 - Make sure the data is relevant to your argument and explain how that is
 - Indicate the source
 - Do not only report results but also show awareness of the methodology used
- Summarize your argument in a brief conclusion

We encourage you to look for additional literature. You are not expected to read everything there is on your topic, however. In-depth analysis and development of your own sustained argument matter much more. So, read a few things, but then start writing quickly.