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Keynes Revisited: Delivering Growth Impulses in the Global Economy

Yaroslav Lissovolik, Kristina Ivanova

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About the Authors

Yaroslav Lissovolik
PhD in Economics, Programme Director at the Valdai Discussion Club,
Member of the Bretton Woods Committee

Kristina Ivanova
PhD in Economics, Analyst at Strategic Projects Department, Rosneft
Oil Company

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42 Bolshaya Tatarskaya st., Moscow, 115184, Russia

The annual meetings of the International Monetary Fund (IMF) and the World Bank in 2019 in Washington revealed a growing preoccupation with the mounting signs of a slowdown in the world economy. The IMF's diagnosis was that of a 'synchronized slowdown' across the globe with the Fund revising its growth projection for global economic growth downwards and putting the 2019 growth estimate at the lowest level since the 2008–2009 financial crisis. Indeed, the discussions in the seminars and conferences during the Annual meetings featured various proposals on ways of countering the further progression of the global economic slowdown. While structural reforms were frequently advanced as the preferable path to boosting the economic growth potential, the short-term exigencies for the global economy invariably centred on the need to deliver a monetary and/or fiscal stimulus to support growth.

As the world economy shows mounting signs of deceleration and recessionary fears intensify across global markets, the world community is likely to focus increasingly on how to undertake an effective anti-crisis response. Back in 2008–2009, one of the key factors in surmounting the crisis was a coordinated response of the largest economies via a fiscal stimulus that was coordinated by the IMF. In current circumstances, the conditions for effective cross-country coordination may appear to be more challenging. Nonetheless, the worsening condition of the world economy does merit a look into how the global anti-crisis response can be undertaken.

While there is ad hoc coordinated action on the part of the central banks of the largest economies in generating monetary easing in the face of the global economic slowdown, there may be a case for a more formal mechanism that envisages not only monetary easing but also coordinated fiscal stimulus. The latter has in fact already been undertaken in the context of dealing with the 2008 global crisis through IMF coordination efforts. There may be a case for a more formal mechanism of Keynesian-type fiscal stimulus that pertains not only to the global-level institutions like the IMF but also involves regional stimuli through regional integration arrangements. This would allow the global economy to make use of a broader array of instruments and the full capacity of the Global Financial Safety Net (GFSN).

Taking Keynes to a Global Level: The Anti-Crisis Effort of 2008–2009

The paradigm of surmounting recessions and full-fledged crises in the 1920s–1930s discovered by Keynes was to employ fiscal stimulus to assist ailing Western economies to boost demand in a counter-cyclical way. In a global economy, this paradigm needs to be upgraded to take into account higher interdependencies and greater economic interaction across countries. The formulation of the original Keynesian ideas on counter-cyclical fiscal stimulus as a way to counter economic depression was made in a single country context, with less attention paid to the international ramifications of how such a stimulus would operate in an international setting. Accordingly, there may be a case for a reformulation of the Keynesian thesis on fiscal stimulus in a globalized context that takes into account the interdependencies across countries, most notably within the regional integration arrangements.

While the theoretical underpinnings of a 'globalized stimulus' have not been explored in great depth, there is already practical experience in carrying out a large-scale stimulus in coordination with the IMF. In particular, in 2009 the Fund coordinated among its members a rough 2% of GDP fiscal stimulus to counteract the global economic downturn. At the time, the exercise was seen as largely successful in delivering a growth impulse and steering the world economy to a recovery in subsequent years. The coordinated global response to the 2008–2009 crisis was unprecedented in terms of the scale and synchronicity undertaken by countries. According to the International Labour Organization (ILO), 'among the G20 countries alone, the size of fiscal stimulus amounted to $2trn – roughly 1.4% of the world GDP. More importantly, the response to this crisis stands out because of the synchronicity among major economies on all fronts – financial, monetary, and fiscal responses.'[1]

The scale of the anti-crisis response varied widely across countries, with Asia (without Japan and South Korea) allocating more than 9% of GDP – the highest across macroregions. Among the G20 economies, China led the way with 12.7% of GDP in anti-crisis stimulus, followed by Saudi Arabia, South Korea, Turkey, and the United States. The conclusion reached by the ILO in its analysis

[1] *'A Review of Global Fiscal Stimulus', EC–IILS Joint Discussion Paper Series No. 5, International Labour Organization. Available from: https://www.ilo.org/wcmsp5/groups/public/---dgreports/---inst/documents/publication/wcms_194175.pdf*

of the anti-crisis response was that the 'evaluation of country efforts reveals that countries that showed relatively better GDP and employment recovery also had implemented bigger stimulus packages as a percent of GDP. Countries in emerging Asia and other developing economies tend to fall in this category.'[2]

There was significant variation across countries in terms of the composition of the fiscal stimulus, with developing countries such as China and India directing the bulk of anti-crisis spending towards infrastructure projects. In advanced economies, more emphasis was placed on lowering the tax burden in the economy and increasing social transfers and unemployment benefits. Unemployment benefits featured as an important part of the anti-crisis toolkit partly due to their role as 'automatic stabilizers' (increasing during the recession and falling back along with the recovery). On the whole, the issue of the composition of the global fiscal stimulus package that could be put together in the near term needs to take into account the multiplier effects as well as the spillover effects of fiscal spending across countries and regions in the 2008–2009 undertaking.[3]

The overall assessment of the effects of the coordinated stimulus appear to be positive, according to the ILO: 'In terms of the effectiveness of fiscal stimulus measures, it is still widely accepted that no fiscal stimulus injection would have been much worse to the global economy in terms of the lost output. The current recovery of the global economy owes much to the active use of fiscal stimulus measures against the global crisis.'[4] Furthermore, ILO analysis finds a positive relationship between the scale of the anti-crisis stimulus and the GDP response:

> Evaluation of country efforts reveals that countries that showed relatively better GDP and employment recovery also had implemented bigger stimulus packages as a percent of GDP. Countries in emerging Asia and other developing economies tend to fall in this category. But in terms of responsiveness, countries in this category did not respond the quickest with China being the exception. But on the other hand, countries with higher GDP per capita (high income countries) were also the earliest responders.[5]

Interestingly, back in 2008–2009 Russia's fiscal stimulus within the coordinated response was one of the least sizeable, with a significant part

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[2] *Ibid.*

[3] *Ibid.*

[4] *Ibid.*

[5] *Ibid.*

of the post-crisis recovery taking place on the back of the growth in oil prices. This time around, Russia is in a relatively favourable position to deliver its share of stimulus:

- the exceeding of the 7% of GDP benchmark for the National Wealth Fund, beyond which funds in excess of the limit may be spent;
- the catch-up in the disbursement of funds for national projects, whose financing has been running behind schedule throughout 2019;
- introduction of Key Performance Indicators (KPI) and greater conditionality in the allocation of funds to the regions, which raises the state's capacity in undertaking targeted spending;
- strong sovereign balance sheet characterized by fiscal surpluses, a moderation in the level of the non-oil budget deficit and low public debt levels;
- electoral cycle: in 2020, Russia effectively enters into a pre-electoral period, which, according to previous electoral patterns, may raise the propensity of the authorities to allow for greater fiscal loosening;
- low growth amid a relatively tight macroeconomic policy mix, with the scope for monetary policy loosening limited.

Indeed, throughout 2019 there appear to be increasing signs of a paradigm shift in Russia's economic policy associated with a move from an overarching emphasis on securing macroeconomic stability to attaining higher growth. The epicentre of these discussions is the theme of Russia's national projects – RUB 25.7trn in size over a period of 2019–2024 – whose implementation is set to be accompanied by a significant increase in fiscal spending in key priority areas such as infrastructure and human capital development.

Apart from Russia being arguably more in a position to deliver its share of fiscal stimulus in a coordinated global effort, there is also a significantly greater capability accumulated by developing economies to contribute to a coordinated fiscal stimulus. This in turn partly reflects the ongoing redistribution of the economic weight in the world economy away from the developed to the developing world.

The Rising Role of the Global South

In practical terms, a re-enactment of such a stimulus could be undertaken not solely on the basis of the IMF membership platform, but it could be replicated among the countries of the Global South, or the largest emerging markets facing an economic downturn. One possible modification of such a stimulus could be a coordinated fiscal expansion conducted by BRICS economies with the view to boosting economic activity in all the main regions of the developing world. This is made possible by the fact that every BRICS economy represents a key region of the Global South, with growth impulses emanating from each of the BRICS economies to their regional trade agreements' (RTAs) partners. The stimuli emanating from the BRICS core countries could benefit their regional partners, with the composition of the fiscal stimulus targeting capital spending, most notably in the infrastructure sphere, which could deliver the most significant dividends to the wider region of the respective BRICS members.

Within the set of integration blocs led by the respective BRICS economies, a fiscal stimulus could be coordinated among Brazil (Mercosur), Russia (Eurasian Economic Union), India (the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation), South Africa (Southern African Development Community), China (ASEAN–China Free Trade Area and the wider circle of developing countries given China's leading role in the Global South). Such a strategy could be coordinated by a common platform for the regional integration blocs operating on the basis of an extended BRICS+ concept.

Several caveats need to be taken into account in devising such a framework for a South–South stimulus package. Firstly, the fiscal and debt sustainability of core BRICS economies. While some of the BRICS economies like Russia have low levels of public debt, others like Brazil do face constraints in launching large-scale stimulus. Another issue is the composition of the fiscal stimulus as well as the assessment of the conditions that would warrant such an undertaking on the part of the BRICS. In the latter case, the BRICS Contingent Reserve Arrangement (CRA) could serve as an additional mechanism that assesses the macroeconomic state of affairs across the BRICS+ platform and, if necessary, provides support to economies in need of additional support.

The issue of the composition of the coordinated fiscal stimulus was not addressed in great detail in the IMF-coordinated effort of 2009. For BRICS-induced stimulus, one possible area of prioritization of fiscal spending could be infrastructure projects that improve connectivity with regional counterparts and effectively serve to strengthen regional connectivity and the growth impulses from BRICS core countries to their regional partners. These outlays could be complemented or supported by the respective regional development banks that operate in each of the regions of the core BRICS operations, including the BRICS New Development Bank (NDB) or the Eurasian Development Bank. Such stimuli conducted in the South–South space on the basis of the BRICS+ platform would need to be coordinated with the multilateral institutions, including the IMF as well as RFAs.

In order for the idea of a coordinated stimulus to materialize, economic integration becomes crucial, including in areas such as trade or the creation of platforms for regional development banks and other development institutions. In the trade sphere, the integration between the BRICS+ economies will serve to strengthen the transmission channels from the core BRICS countries to their regional partners. The formation of common platforms across development institutions of the BRICS+ circle will serve to complement the effects of spending undertaken by the respective countries. There is also a need for BRICS+ economies to work towards coordinating their monetary and structural policies in order to strengthen the scope for joint policy action in countering economic downturns.

In the end, there may be a range of modalities for launching economic/fiscal stimulus on a global scale. One way may be for the IMF to coordinate the fiscal stimulus conducted by its members as has been the case in 2009. Another way may be to coordinate the process among regional blocs via the cooperation between the global institutions and the regional financing arrangements as well as other regional bodies. Still another possibility is a more active role of the G20 and the possibility of the grouping working together with regional arrangements and global institutions such as the IMF in conducting the economic stimulus. The key potential improvement that could be introduced in the next round of coordinated stimulus would be to involve the regional institutions and their reserves in countering the global economic downturn.

Global Stimulus 2.0: Employing the Full Capacity of the GFSN

While the results of the first 2008–2009 coordinated fiscal stimulus are generally viewed positively, there is a sizeable potential to further improve on the delivery of the stimulus and its impact on global growth. This may involve a shift in the composition of coordinated spending towards more growth-enhancing spending items such as infrastructure development. It may also involve coordinated structural measures (including possibly in the sphere of trade or investment liberalization through multilateral or other types of agreements) that may seek to amplify and reinforce the positive cross-border effects of fiscal stimulus.

Another important aspect of a superior anti-crisis framework across the globe is a transparent, rules-based, and pre-established mechanism for a coordinated stimulus rather than ad hoc measures undertaken by a relatively narrow group of heavyweights in the midst of a downturn. The impact of an ex ante, pre-arranged framework will arguably be stronger with respect to stabilizing the expectations of markets as well as the business/investor and consumer confidence compared to an absence of a well-defined framework beyond the mechanical summing up of disparate country-level anti-crisis efforts. Furthermore, such an anti-crisis framework that would serve as a 'global anchor' of sorts would also need to incorporate a coordination mechanism for monetary policy stimulus across countries and its interaction with fiscal anti-crisis measures.

However, perhaps the most important way in which a coordinated fiscal stimulus could be improved would be through the involvement of regional institutions such as regional development banks and regional integration arrangements. Their involvement as well as RFAs participation is warranted by their sheer size – in terms of available resources regional development banks vastly exceed the fire-power of global institutions such as the World Bank, while the resources of the IMF have also been surpassed by RFAs in recent years. Accordingly, the use of regional institutions in a coordinated effort to support global growth impulses enables the world economy to make use of a greater part of the GFSN that may be employed to support growth.

In fact, one of the key objectives of the GFSN is precisely to provide the funds/liquidity to cope with the crisis along with supplying the funds that

may serve as precautionary insurance against outbreaks of economic instability. The four layers that constitute the GFSN include the country-level (countries' fiscal and monetary reserves), bilateral level (bilateral swap lines across countries), regional level (RFAs), and the multilateral level represented by global institutions such as the IMF. The importance of the regional layer resides in the multiplier potential of economic stimulus across borders and the greater scope for using the institutions and the arrangements devised on the regional level to prioritize these positive cross-border spillovers.

Another regional dimension with respect to the global fiscal stimulus has to do with the coordination of this exercise with regional integration arrangements such as the EU, ASEAN, or the EAEU. This is due to the significant capability that regional institutions possess in tracking intraregional spillover effects as well as their experience in promoting economic policy coordination within their respective regions. It is also important to take advantage of the regional transmission mechanisms that have been developed within the regional integration arrangements and development institutions. This includes portfolios of 'integration projects' financed by regional development banks in which the effects of infrastructure or other spending are to be spread across a wider array of regional partners whose economic integration is promoted by respective regional development institutions.

The creation of an anti-crisis mechanism on the global level may become part of a broader task that targets the reconstruction of the global economic architecture through the incorporation of a regional layer of global governance. This in turn may be pursued via the creation of a platform for regional integration arrangements and regional institutions with a coordinating role performed by the G20. Such a platform that may be denoted R20 (regional 20) would bring together regional integration arrangements and institutions where G20 countries are leading members. Such a platform may promote horizontal coordination across regional institutions as well as vertical cooperation with global multilateral organizations – RFAs with the IMF, regional development banks with the World Bank, and the regional integration arrangements with the World Trade Organization (WTO).[6]

In the end, a ***synchronized downturn calls for a synchronized response***. Limiting the coordinated fiscal response solely to the country level significantly restricts the scale of resources that may be devoted to fiscal stimulus on the global level. There needs to be an ex ante mechanism that allows for a coordinated response across all layers of the Global Financial Safety Net and the use of an entire array of reserves and resources to deliver the stimulus. There is also

[6] Lissovolik, Y, Bespalov, A & Bystritskiy, A, 2019, 'Regional Trade Blocs as Supporting Structures in Global Governance', March 31. Available from: https://t20japan.org/policy-brief-regional-trade-blocs-global-governance/

a need for such a mechanism to incorporate the possible modalities of structural measures and monetary stimulus that could further strengthen the global anti-crisis response. For all the merits of the previous global anti-crisis exercise, its effects proved to be short-lived, while a significant part of the imbalances in the structural area proved to be way too resilient.

Conclusion

Overall, a fiscal stimulus coordinated across countries appears to be increasingly expedient as the intensity of the trade stand-off among the leading trading powers is showing further signs of escalation. Rather than an ad hoc response from a number of countries a decade ago, a more comprehensive, rules-based, and coordinated arrangement could be advanced in a way that renders this anti-crisis mechanism a systemic part of an effective use of the GFSN. Indeed, in order to magnify the synchronicity effects of the fiscal spending on the country level, other layers of the GFSN could be employed, namely the stimulus coming from the regional and global development banks/ institutions as well as RFAs.

With Keynesian recipes largely employed to deal with crises on the country level, it is about time that Keynes' theory stands up to the global challenges facing the world today. A rising number of countries are now opting to use the instrument of expansionary fiscal policy to avert an economic downturn, including possibly the likes of Germany where there is a strong preference not to deviate away too far from balanced budgets. What is needed in current circumstances is an effort to coordinate these fiscal stimuli and advance a framework for an anti-crisis response on the global level – an undertaking in the true spirit of John Maynard Keynes, whose legacy may largely be summed up by his advocacy of anti-crisis policies (fiscal stimulus) and international coordination (the creation of the Bretton Woods institutions).

Our today's task is to learn from our experience and send globalization along a path of greater sustainability, which would create conditions for the divergence and coexistence of diverse national economic systems. An anti-crisis mechanism systemically built into the new global economic system needs to allow for coordination in the monetary policy sphere as well as in the area of fiscal policy, with various platforms – from the regional level to global institutions – serving as mechanisms for anti-crisis action. A permanent and systemic anti-crisis mechanism may deliver greater stability to the global economy and imbue world markets with greater confidence.

Council on Foreign and Defense Policy

valdai@valdaiclub.com