

Deficit spending versus austerity - the mathematics of government intervention in macroeconomics

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Abstract:

It is by now well understood that the Keen model for the dynamics of private debt in macroeconomics exhibits in general a good equilibrium with a finite level of debt and a bad one where debt grows without bounds, both of which being locally stable for a wide range of parameters. In this talk, I explain how the introduction of a government sector can move the system away from the bad equilibrium, applying techniques from mathematical biology used to show persistence of a given species in a population model. Conversely, I show how fiscal austerity is generally harmless in good times, but decidedly a really bad idea during a crisis, since it has the unequivocal effect of accelerating the convergence to the bad equilibrium.