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## **Return of Keynes**

**Professor T.K.Jayaraman**

Last fortnight, there were two spectacles, both watched all over the world with awe.

One was the super election.

The result, catapulting a candidate, with no public service to his record, to the world's highest position of economic power and military strength: the US Presidency, stunned the world. It only raised the levels of uncertainties wrought by terrorism, racial divide and economic chaos to a new high.

The other was a super moon on Nov 14: beautiful with cool rays, comforting the spirits. Yet another super spectacle, as they say once in a lifetime.

But, for superstitious people all over the world, in different cultures and continents, it only instilled fears in their irrational minds about the future.

### **Remember Shakespeare?**

*"O, swear not by the moon, the fickle moon, the inconstant moon,  
that monthly changes in her circle orb,  
Lest that thy love prove likewise variable"* (Romeo And Juliet Act 2, Scene 2)

America, the land of immigrants does not lack superstitious people. The Cleveland Clinic had to issue an advisory to all of them that there is nothing to fear.

"-- there are no good studies to support that the moon has any effect at all--- So, there is no effect on the moon of human behavior."

Indeed US President-elect Donald Trump tried his best to assuage Americans and the world, as he knows America is a leader of the world in the area of human progress: ideas, information, and innovations. He gave indications he would roll back most of his campaign pledges of increased protectionism and shutting out immigrants.

## **Good news**

The US economy is now looking forward to recovery, with the US Central Bank, the Federal Reserve, breathing a sigh of relief. All these eight years, it has been “the Lone Ranger” defending, protecting and promoting the US and the world from the Great Recession.

One promise is now a certainty. With a Republican majority in US Congress, the Republican President-elect promised, he would adopt an expansionary fiscal policy: tax cuts and nearly US\$ 1 trillion expenditure on physical infrastructure in next four years to make “America Great Again”.

The Democrat President Obama, attempted to do it in his first term: US\$ 800 billion under American Recovery and Reinvestment Act. The Republicans wanted less government, were against fiscal deficits. Now, all proposals by President Trump will have a smooth sail.

Although the Fed Chair Ellen and past Chair Bernanke have been persuading Congress in their testimony for a fiscal stimulus, the ideological approach of Reagan (his slogan: “government is the problem and let us fix it”) and Thatcherism ( her slogan: “snatch the milk” giving her the epithet “milk snatcher”, for reducing public expenditure spending on children in schools) ruled the roost in the political economy.

To the pundits it is neo-liberalism.

To international funding agencies, no budget deficits and less taxes was the article of faith.

The Fed had to bear the full brunt of saving the economy from recession through pumping trillions of dollars, debasing the currency and keeping the interest rate close to zero.

It never got America closer to growth with rise in job numbers. Instead it got into a liquidity trap.

## **Return to Keynes**

The irony is: it is now left to the Republican President-elect to prove the point: “all of us are Keynesians”, a famous quote coined by Milton Friedman and attributed to U.S. President Richard Nixon. It means “the reluctant embrace in a time of financial crisis of Keynesian economics by Republican Nixon who was against interventionist policies.”

The cover story of December 31, 1965 edition of Time Magazine prominently displayed the phrase.

Trump is not an economist, but an entrepreneur with 500 businesses: glitzy hotels and casinos, all helped by immigrant labour and globalization. He has five properties in India with his name, but no investment, deriving annual revenues just for using his name.

He knows what is meant by Keynesian animal spirits!

Now there is a heavy sell-off bonds, in anticipation of inflation. Bond holders switch to physical assets. Fall in bond price would indicate a rise in interest rate. The Fed can now relax. Normalization of interest is now acceptable.

World commodity prices are also on the rise; iron ore, coal, nickel, copper and gold. The US dollar also will appreciate following rise in the Fed Funds rate. Appreciation of US dollar would be a boost to exports from developing countries.

Trump would roll back many of his pledges. He has already softened his words.

After all, all is fair in love and so too in electioneering!

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*Professor Jayaraman teaches at Fiji National University. His website: [www.tkjayaraman.com](http://www.tkjayaraman.com)*