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The Use of the Shifting Mode of Economic Reproduction Model for Simulating the "Great Depression"

Moscow - Pushchino
2013

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- Crisis phenomena in economies of different countries appear in case of aggravation of certain misbalances under economic booms.
- Many works analyze causes which led to the factors of the Great Depression. There are the following factors among them:
- - impact of accelerated depreciation;
- - phenomenon of downfall of securities and money in 1929;
- - money pumping in early 30s.

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- The calculations were held to assess whether the shifting mode of economic reproduction model could imitate the Great Depression based upon the chosen factors.
- The model accounted the accelerated depreciation which was allowed by the US Government in 1921.
- Then, it accounted that reduction of non-cash money occurred in the most acute phase of the Great Depression (1929-1933) due to the crisis in the banking system and bankruptcy. Thus, incomes of the subsystems were 10% cut in the calculations.

- We simulated the growth of money emission which started in 1933 and was aimed at crisis recovery. It was directed by the Government to households via the budget to increase the public effectual demand of the population.

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- Fig. 2.1 shows the results of production dynamics calculation for the said scenario. Fig. 2.2 shows the results of calculations of the household money dynamics *Mhi* (X-axes of the plot indicate the years of the 20th century).

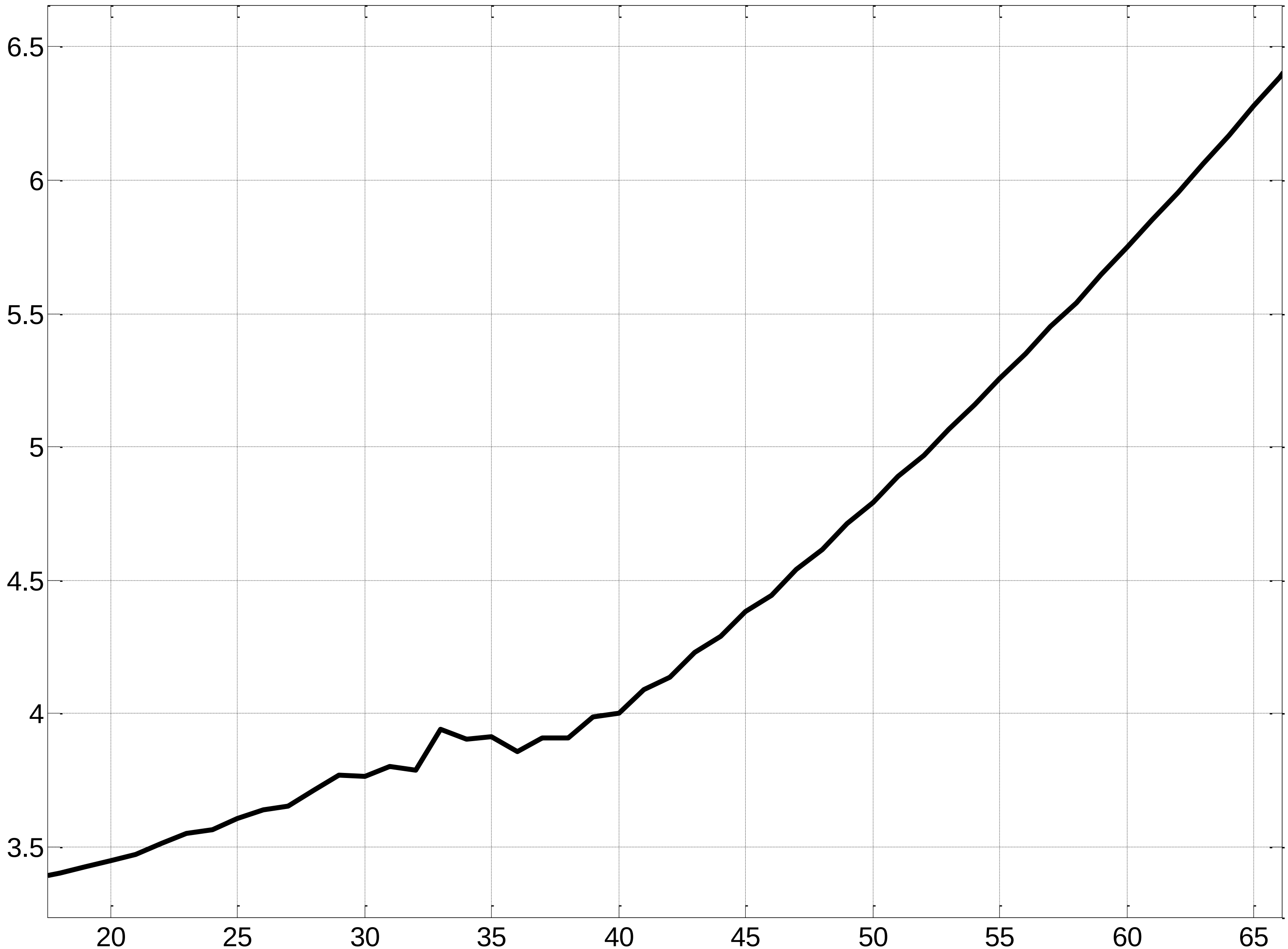

Fig. 2.1. Simulating the Great Depression: dynamics of aggregate rate of production

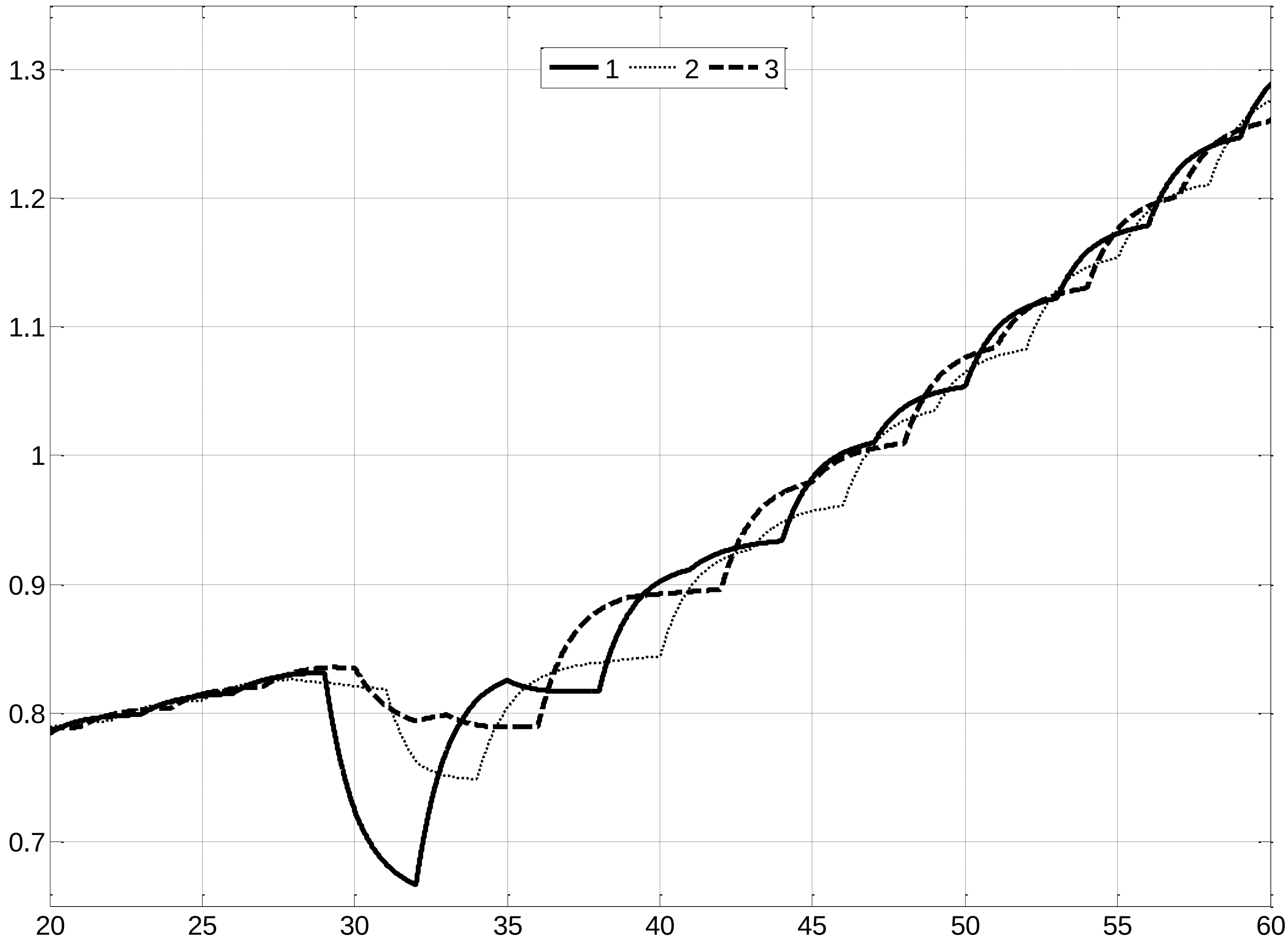

Fig. 2.2. Simulating the Great Depression: Cash resources dynamics in households *Mhi*

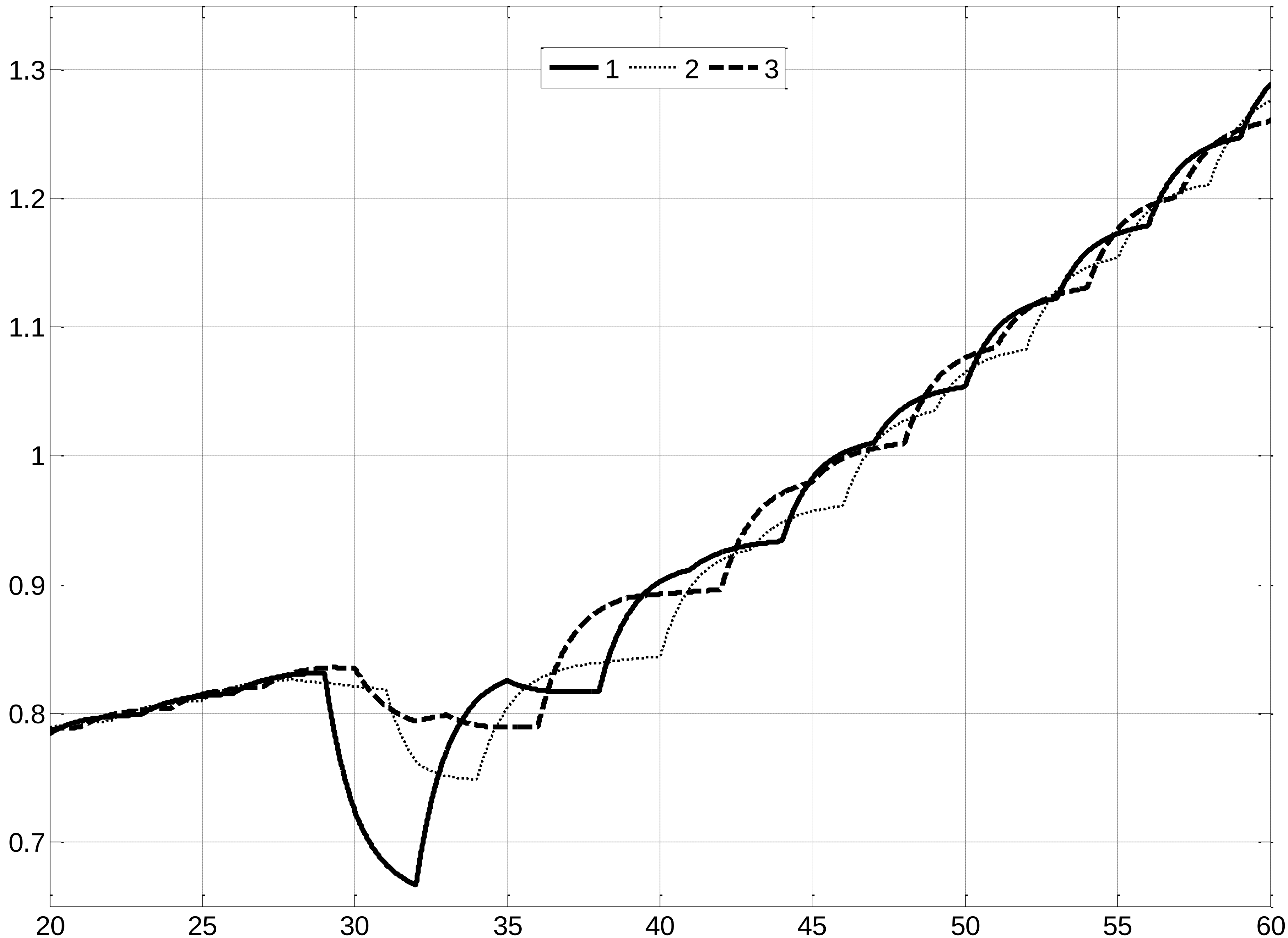

Fig. 2.3. Simulating the Great Depression: the ratio of the effectual demand of households to the consumption products supply

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- The model shows that although the economy was strongly spurred since 1933 to increase the effectual demand, the deflationary potential was so strong that the economy suffered high fluctuations, and the situation required a lot of time to stabilize. As you can see, the model is quite lifelike.

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- The USA came out of the Great Depression only in the beginning of WW2 due to stimulating effect of military contracts (the calculations did not take into account the impact by WW2 on the US economy, however, the diagrams show that if there had been no war, Roosevelt's policies would have allowed to stabilize the economy and force it to a new coordinated growth mode).

- Despite a number of simplifying assumptions, the basic model of the shifting mode of economic reproduction gives quite an adequate description of such a complex phenomenon as the US ***Great Depression***.

Many thanks for your attention