Keynesian multiplier and limits to the accumulation: an Input-Output analysis

Topic: Classical IO applications: Multiplier and Linkage Analysis
Author: Armando Andrès Álvarez
Co-Authors: Juan José López

This article deepens the Keynesian multiplier’s effect on the income generated by final demand stimulus and the repercussion of the new value added on the final demand dynamization. Furthermore, the limits of the companies’ accumulation generated for these dynamics and the possibility of inflation are analyzed. A new input output methodology is proposed. This methodology articulates Keynes’ multiplier idea, the division of economic agents and their correspondent consumption’s and saving’s behavior proposed by Kalecki and Shaikh’s classical economist’s interpretation related to the limits to the accumulation. At first, the model is presented for a closed economy and without government, then is extended to a general model that incorporated the external and the public sector. The model is applied to El Salvador’s economy using the 2014 Input-Output Table obtained through the transformation of the 2014 Supply and Use Table published by the Central Bank of El Salvador with the Eurostat’s B model. The article’s novelties are the possibility to calculate the sectorial Keynesian multipliers; the limits to the final demand stimulus; the model gives new approaches to understand in a better way the paradox of saving; the more general case of this model allows the analysis of fiscal policy and external sector effects.