

УДК 811.111:339.133.3

Shevernev V, Korobkov I, Korzun O.

Paradox of Frugality

Belarusian National Technical University
Minsk, Belarus

The coronavirus crisis has led to record savings growth in both developed and developing countries. For example, in the United States, the savings rate rose to 33% compared to 7.5% in 2019. In Russia, savings increased by 18.2%, in other words, four times more than it was in the same period of 2019-2020.

According to the classical theory, a high tendency to save allows the nation to flourish, since large savings increase investments. Keynes concluded that in the countries with a high level of economic development, the desire to save is always ahead of the desire to invest for several reasons:

- increased capital accumulation reduces its marginal efficiency;
- the increase in income leads to the increase in the share of savings, since savings are an increasing function of income;
- the decrease in consumer spending will cause the increase in unrealized products, production and national income will begin to decline;
- the multiplier effect will cause a much larger decline in income with a slight increase in savings.

The essence of the frugality paradox is that society's attempts to increase savings may be in vain, since equilibrium income will decline many times [1].

Frugality, being a good characteristics of a person, is considered as evil when we take society as a whole, as it adversely affects employment and total output.

In most cases, households have substantial incentives for more savings at a time when increasing savings is not economically feasible, when the economy is in decline. Assuming that the money market more effectively links savings and investment decisions, that is, converts savings into investments, the upward shift in the savings curve will be equal to the same shift in the investment curve, which will keep equilibrium national income unchanged. Thus, employment and production will not change, and the production structure will consist of more investment goods than consumer goods, which will allow future economic growth to accelerate.

Meanwhile, if the economy works in the classic segment of the aggregate supply curve, or, in other words, it is in the stage of demand inflation, then the tendency of households to save more will shift the aggregate demand curve down, and therefore the rate of inflation will decrease. In this case, an increase in savings is desirable, since it will stop inflation. From the simple Keynesian model, it follows that economic growth requires an increase in aggregate spending reviving the growth of aggregate income with a multiplier effect. Everything withdrawn from spending reduces total income, thereby driving the economy to a state of depression or recession. Therefore, the paradoxical conclusion follows from all this: the more people begin to save, the poorer the economy becomes [2].

Keynes believed that the getting out of the recession was state active intervention in the economy, i.e. implementation of government regulation policies. To stabilize the economy, Keynes proposed increasing government spending, as this allows you to directly affect aggregate demand and influence aggregate income and output. The paradox of frugality in its pure form is observed only in the Keynesian model.

According to the classical theory savings are equal to investments. That is why the increase in savings leads to the

increase in investments by the same amount, and there is no decrease in income. If the discharge limit is increased due to the growth of any type of discharge, then this difference is compensated by the corresponding increase in investments, and therefore the total output remains unchanged.

The representatives of the Austrian school believe that savings, that is, the refusal to acquire the current benefits in return for greater acquisition in the future, are the basis for economic development and can lead to great wealth.

In conclusion, it should be noted that frugality is an integral part of economic development. The foundations of economic development are needed to be constantly strengthened to achieve sustainable wealth and prosperity of the Nation to realize the aspiration of future generations.

References:

1. Paradox of frugality [Electronic resource]. – Mode of access: <https://spravochnick.ru/ekonomika>. – Date of access: 25.03.2021.
2. Paradox of frugality [Electronic resource]. – Mode of access: <https://economicportal.ru>. – Date of access: 25.03.2021.