DOWNLOAD PDF CONSUMER ECONOMICS AFTER KEYNES

Chapter 1 : EconPapers: Book Review: Consumer Economics After Keynes

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But many Americans do not really believe this truism, especially when the war in question is World War II. But the great majority of Americans never experienced the fighting directly. During the Great Depression, many people had despaired over whether the economy would ever again operate satisfactorily. Then, the mobilization for war coincided with what appeared to be a great economic boom. By , all the usual indicators of economic well-being signaled that the economy was enjoying unprecedented prosperity. Most important, the official rate of unemployment had sunk to just 1. After years of turning away qualified job seekers, employers were beating the bushes in search of warm bodies. For the economists who had recently embraced the ideas of John Maynard Keynes, expressed in his General Theory of Employment, Interest, and Money , the war seemed to validate their beliefs. Ever since, most economists, historians, and educated laymen have accepted the Keynesian conclusion. It seems obvious that the war got the economy out of the depression, that it created a condition commonly called wartime prosperity. How could anyone argue otherwise? Appearances, however, can be deceptive, and correlations can be spurious. Did American participation in the most destructive event of all time really have positive economic consequences? When something seems counterintuitive, it often helps to reexamine the terms in which the puzzle is expressed. What did this condition consist of? Consider first the labor market. Although unemployment virtually disappeared, the disappearance owed nothing to Keynesian fiscal policy. In truth, it owed everything to massive conscription. Between and , the number of unemployed persons fell by 4. For the whole war period, more than 10 million men were drafted. The Keynesian correlation is spurious. This, it turns out, is nothing more than an artifact of the accounting system used by the government to keep the national product accounts. In the official system, spending for military goods and services gets counted as part of the dollar value of national output, as does spending for consumer goods and new capital goods. So every dollar the government paid for the services of military personnel or for the purchase of battleships, tanks, bombers, and other munitions during the war was included in the GNP. Many aspects of economic well-being deteriorated during the war. Military preemption of public transportation interfered with intercity travel by civilians, and rationing of tires and gasoline made commuting to work very difficult for many workers. More workers had to work at night. The rate of industrial accidents increased substantially as novices replaced experienced workers and labor turnover increased. The government forbade nearly all nonmilitary construction, and housing became extremely scarce and badly maintained in many places, especially where war production had been expanded the most. Price controls and rationing meant that consumers had to spend much time standing in lines or searching for sellers willing to sell goods at the controlled prices. The quality of many goods deteriorated, as sellers forbidden to raise prices adjusted to increased demands by selling lower quality goods at the controlled prices. After the war ended in the late summer of , a genuine economic miracle took place during the next two years. More than 10 million men were released from the armed forces. Industry, which had occupied itself largely in producing war goods from to , switched back to the production of civilian goods. The huge government budget deficit disappeared, and during the fiscal years , the federal budget actually had a small surplus. Yet, despite the fears and warnings of the Keynesian economists that such events would plunge the economy back into depression, civilian production boomed, increasing by nearly 27 percent from to , and the rate of unemployment never exceeded 4 percent until the recession of Why the economy performed so successfully during the reconversion is an economic mystery that a few economists, including the present writer, have recently begun trying to understand better. The mainstream economics profession, however, never faced the contradictions between its Keynesian theory and the events of the reconversion. It did not, which refutes the theory. Reflecting the conventional wisdom, a leading textbook in U. The Keynesian Message Illustrated. So common did this argument become that Marxist critics gave it the apt name military Keynesianism. On both the left and the right, people believed that huge military spending propped up an economy that, lacking this support, would collapse into depression. Military Keynesianism was always an intellectually bankrupt theory. But the munitions production was far from free. It entailed huge opportunity costs, even though part of it could be accomplished simply by employing workers and capital that had been idle before the war. During the Cold War, however, the nation had very few unemployed resources to call into defense production, and using lots of resources for this purpose meant that the civilian goods that those resources might otherwise have produced had to be sacrificed. Such theorizing never faced squarely the underlying reason for the initial idleness of labor and other resources. If workers want to work but cannot find an employer willing to hire them, it is because they are not willing to work at a wage rate that makes their employment worthwhile for the employer. So, government policies created sustained high unemployment, and Keynesians blamed the market. In this way, sound economics was replaced by economic ideas congenial to spendthrift politicians, defense contractors, labor unions, and left-liberal economists. How much better it would have been if the wisdom of Ludwig von Mises had been taken to heart. It is still apt today.

Chapter 2 : Post-Keynesian economics - Wikipedia

Consumer economics after Keynes: theory and evidence of the consumption function / George Hadjimatheou. HB H The rational consumer: theory and evidence / Robert E. Hall.

Previously, classical economic thinking held that cyclical swings in employment and economic output would be modest and self-adjusting. According to this classical theory, if aggregate demand in the economy fell, the resulting weakness in production and jobs would precipitate a decline in prices and wages. A lower level of inflation and wages would induce employers to make capital investments and employ more people, stimulating employment and restoring economic growth. The depth and severity of the Great Depression, however, severely tested this hypothesis. Keynes maintained in his seminal book, "General Theory of Employment, Interest and Money," and other works, that structural rigidities and certain characteristics of market economies would exacerbate economic weakness and cause aggregate demand to plunge further. For example, Keynesian economics refutes the notion held by some economists that lower wages can restore full employment , by arguing that employers will not add employees to produce goods that cannot be sold because demand is weak. Similarly, poor business conditions may cause companies to reduce capital investment , rather than take advantage of lower prices to invest in new plants and equipment. This would also have the effect of reducing overall expenditures and employment. The famous book was informed by directly observable economic phenomena arising during the Great Depression, which could not be explained by classical economic theory. In classical economy theory, it is assumed that output and prices will eventually return to a state of equilibrium , but the Great Depression seemed to counter this assumption. Output was low and unemployment remained high during this time. The Great Depression inspired Keynes to think differently about the nature of the economy. From these theories, he established real-world applications that could have implications for a society in economic crisis. Keynes rejected the idea that the economy would return to a natural state of equilibrium. Instead, he envisaged economies as being constantly in flux, both contracting and expanding. This natural cycle is referred to as boom and bust. In response to this, Keynes advocated a countercyclical fiscal policy in which, during the boom periods, the government ought to increase taxes or cut spending, and during periods of economic woe, the government should undertake deficit spending. Keynes was highly critical of the British government at the time. The government cut welfare spending and raised taxes to balance the national books. Keynes said this would not encourage people to spend their money, thereby leaving the economy unstimulated and unable to recover and return to a successful state. Instead, he proposed that the government spend more money, which would increase consumer demand in the economy. This would in turn lead to an increase in overall economic activity, the natural result of which would be deflation and a reduction in unemployment. Keynes also criticized the idea of excessive saving, unless it was for a specific purpose such as retirement or education. He saw it as dangerous for the economy because the more money sitting stagnant, the less money in the economy stimulating growth. These two schools of thought assume that the market is self-regulating and natural forces will inevitably return it to a state of equilibrium. On the other hand, Keynes, who was writing while mired in a period of deep economic depression, was not as optimistic about the natural equilibrium of the market. He believed the government was in a better position than market forces when it came to creating a robust economy. Keynesian Economics and the Multiplier Effect The multiplier effec t is one of the chief components of Keynesian economic models. This theory proposes that spending boosts aggregate output and generates more income. If workers are willing to spend their extra income, the resulting growth in gross domestic product GDP could be even greater than the initial stimulus amount. The magnitude of the Keynesian multiplier is directly related to the marginal propensity to consume. Its concept is simple: Spending from one consumer becomes income for another worker. Keynes and his followers believed individuals should save less and spend more, raising their marginal propensity to consume , to effect full employment and economic growth. In this way, one dollar spent in fiscal stimulus eventually creates more than one dollar in growth. This appeared to be a coup for government economists, who could provide justification for politically popular spending projects on a national scale. This theory was the dominant paradigm in academic economics for decades. Eventually, other economists, such as Milton Friedman and Murray Rothbard , showed that the Keynesian model misrepresented the relationship between savings, investment and economic growth. Many economists still rely on multiplier-generated models, although most acknowledge that fiscal stimulus is far less effective than the original multiplier model suggests. The fiscal multiplier commonly associated with Keynesian theory is one of two broad multipliers in macroeconomics. The other multiplier is known as the money multiplier. This multiplier refers to the money-creation process that results from a system of fractional reserve banking. The money multiplier is less controversial than its Keynesian fiscal counterpart. Keynesian Economics and Interest Rates Keynesian economics focuses on demand-side solutions to recessionary periods. The intervention of government in economic processes is an important part of the Keynesian arsenal for battling unemployment, underemployment and low economic demand. The emphasis on direct government intervention in the economy places Keynesian theorists at odds with those who argue for limited government involvement in the markets. Lowering interest rates is one way governments can meaningfully intervene in economic systems, thereby generating active economic demand. Keynesian theorists argue that economies do not stabilize themselves very quickly and require active intervention that boosts short-term demand in the economy. Wages and employment, they argue, are slower to respond to the needs of the market and require governmental intervention to stay on track. Prices also do not react quickly, and only gradually change when monetary policy interventions are made. This slow change in prices, then, makes it possible to use money supply as a tool and change interest rates to encourage borrowing and lending. Short-term demand increases initiated by the government reinvigorate the economic system and restore employment and demand for services. The new economic activity feeds a circular, cyclical growth that maintains continued growth and employment. Without intervention, Keynesian theorists believe, this cycle is disrupted and market growth becomes more unstable and prone to excessive fluctuation. Keeping interest rates low is an attempt to stimulate the economic cycle by encouraging businesses and individuals to borrow more money. When borrowing is encouraged, businesses and individuals often increase their spending. This new spending stimulates the economy. Lowering interest rates, however, does not always lead directly to economic improvement. Keynesian economists focus on lower interest rates as a solution to economic woes, but they generally try to avoid the zero-bound problem. As interest rates approach zero, stimulating the economy by lowering interest rates becomes more difficult. Interest rate manipulation may no longer be enough to generate new economic activity, and the attempt at generating economic recovery may stall completely. The lower boundary of interest rates, then, is not necessarily an aspiration of Keynesian economists, but is rather a means to an end. When this method fails to deliver results, other strategies must be appropriated. Other interventionist policies include direct control of the labor supply, changing tax rates to increase or decrease the money supply indirectly, changing monetary policy, or placing controls on the supply of goods and services until employment and demand are restored. Keynesian theorists believe in interventionist methods, but are occasionally forced to look beyond interest rates.

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The classical tradition of partial equilibrium theory had been to split the economy into separate markets, each of whose equilibrium conditions could be stated as a single equation determining a single variable. The theoretical apparatus of supply and demand curves developed by Fleeming Jenkin and Alfred Marshall provided a unified mathematical basis for this approach, which the Lausanne School generalized to general equilibrium theory. For macroeconomics the relevant partial theories were: Keynes sought to supplant all three aspects of the classical theory. Precursors of Keynesianism[edit] See also: A number of the policies Keynes advocated to address the Great Depression notably government deficit spending at times of low private investment or consumption , and many of the theoretical ideas he proposed effective demand, the multiplier, the paradox of thrift , had been advanced by various authors in the 19th and early 20th centuries. An intellectual precursor of Keynesian economics was underconsumption theories associated with John Law , Thomas Malthus , the Birmingham School of Thomas Attwood , [7] and the American economists William Trufant Foster and Waddill Catchings , who were influential in the s and s. Underconsumptionists were, like Keynes after them, concerned with failure of aggregate demand to attain potential output , calling this "underconsumption" focusing on the demand side , rather than " overproduction " which would focus on the supply side , and advocating economic interventionism. Numerous concepts were developed earlier and independently of Keynes by the Stockholm school during the s; these accomplishments were described in a article, published in response to the General Theory, sharing the Swedish discoveries. Robertson in his The Fallacy of Saving, in earlier forms by mercantilist economists since the 16th century, and similar sentiments date to antiquity. In it he attributes unemployment to wage stickiness [13] and treats saving and investment as governed by independent decisions: This argument rests upon the assumption that if a surplus of goods or services exists, they would naturally drop in price to the point where they would be consumed. Given the backdrop of high and persistent unemployment during the Great Depression, Keynes argued that there was no guarantee that the goods that individuals produce would be met with adequate effective demand, and periods of high unemployment could be expected, especially when the economy was contracting in size. He saw the economy as unable to maintain itself at full employment automatically, and believed that it was necessary for the government to step in and put purchasing power into the hands of the working population through government spending. Thus, according to Keynesian theory, some individually rational microeconomic-level actions such as not investing savings in the goods and services produced by the economy, if taken collectively by a large proportion of individuals and firms, can lead to outcomes wherein the economy operates below its potential output and growth rate. Prior to Keynes, a situation in which aggregate demand for goods and services did not meet supply was referred to by classical economists as a general glut , although there was disagreement among them as to whether a general glut was possible. Keynes argued that when a glut occurred, it was the over-reaction of producers and the laying off of workers that led to a fall in demand and perpetuated the problem. Keynesians therefore advocate an active stabilization policy to reduce the amplitude of the business cycle, which they rank among the most serious of economic problems. According to the theory, government spending can be used to increase aggregate demand, thus increasing economic activity, reducing unemployment and deflation. Samuelson puts it as follows: The producers of these goods will now have extra incomes Henry Hazlitt , who considered Keynes to be as much a culprit as Kahn and Samuelson, wrote that The textbook multiplier gives the impression that making society richer is the easiest thing in the world: For him the initial expenditure must not be a diversion of funds from other uses but an increase in the total amount of expenditure taking place: On p Kahn rejects the claim that the effect of public works will be at the expense of expenditure elsewhere, admitting that this might arise if the revenue was raised by taxation, but says that other means are available which have no such consequences. As an example he suggests that the money may be raised by borrowing from banks, since This assumes that banks are free to create resources to answer any demand. But Kahn adds that For it will be demonstrated later on that, pari passu with the building of roads, funds are released from various sources at precisely the rate that is required to pay the cost of the roads. It is the orthodox Treasury dogma, steadfastly held The first proposition would ascribe to us an absolute and rigid dogma, would it not? Pigou was at the time the sole economics professor at Cambridge. Nor were his practical recommendations very different: Keynes was seeking to build theoretical foundations to support his recommendations for public works while Pigou showed no disposition to move away from classical doctrine. Referring to him and Dennis Robertson , Keynes asked rhetorically: It is almost wholly theoretical in nature, enlivened by occasional passages of satire and social commentary. The book had a profound impact on economic thought, and ever since it was published there has been debate over its meaning. Under the classical theory the wage rate is determined by the marginal productivity of labour , and as many people will be employed as are willing to take work at that rate. Keynesian unemployment[edit] Saving and investment[edit] Saving is that part of income not devoted to consumption , and consumption is that part of expenditure not allocated to investment , i. The existence of net hoarding, or of a demand to hoard, is not admitted by the simplified liquidity preference model of the General Theory. Once he has rejected the classical theory that unemployment is due to excessive wages, Keynes proposes his alternative based on the relationship between saving and investment. The levels of saving and investment are necessarily equal, and income is therefore held down to a level at which the desire to save is no greater than the incentive to invest. The incentive to invest arises from the interplay between the physical circumstances of production and psychological anticipations of future profitability; but once these things are given the incentive is independent of income and depends solely on the rate of interest r. Liquidity preference[edit] Determination of income according to the General Theory. Keynes viewed the money supply as one of the main determinants of the state of the real economy. The significance he attributed to it is one of the innovative features of his work, and was influential on the politically hostile monetarist school. Keynes never fully integrated his second liquidity preference doctrine with the rest of his theory, leaving the task to be completed by John Hicks: Wage rigidity[edit] Although Keynes rejects the classical explanation of unemployment based on wage rigidity it is not clear what effect the wage rate has on unemployment in his own system. He treats the wages of all workers as proportional to a single rate set by collective bargaining, and chooses his units so that this rate never appears separately in his discussion. It is present implicitly in those quantities which are expressed in wage units while being absent from those expressed in money terms. It is therefore difficult to see whether, and in what way, his results would differ for a different wage rate; nor is it entirely clear what he thought on the matter. Later in the same chapter he tells us that: Ancient Egypt was doubly fortunate, and doubtless owed to this its fabled wealth, in that it possessed two activities, namely, pyramid-building as well as the search for the precious metals, the fruits of which, since they could not serve the needs of man by being consumed, did not stale with abundance. The Middle Ages built cathedrals and sang dirges. Two pyramids, two masses for the dead, are twice as good as one; but not so two railways from London to York. But again the implied recommendation to engage in public works, even if they are not fully justified from their direct benefits, is not taken up when the theory has been constructed. On the contrary he advises us later that The horizontal blue line Is r is the schedule of the marginal efficiency of capital whose value is independent of Y. But insofar as they had had a concept of aggregate demand, they had seen the demand for investment as being given by S Y , since for them saving was simply the indirect purchase of capital goods, with the result that aggregate demand was equal to total income as an identity rather than as an equilibrium condition. As a consequence of the identity of saving with investment Chapter 6 together with the equilibrium assumption that these quantities are equal to their demands. In agreement with the substance of the classical theory of the investment funds market, whose conclusion he considers the classics to have misinterpreted through circular reasoning Chapter Keynes states that there is The schedule of the marginal efficiency of capital is identified as one of the independent variables of the economic system: For when we look upon the Multiplier as an instantaneous functional relation Keynes gave his formula almost the status of a definition it is put forward in advance of any explanation [67]. The resulting multiplier has a more complicated formula and a smaller numerical value. The liquidity trap is a phenomenon which may impede the effectiveness of monetary policies in reducing unemployment. It has generally been considered that the rate of interest would not fall below a certain limit, often seen as zero or a slightly negative number. Keynes suggested that the limit might be appreciably greater than zero but did not attach much practical significance to it. Paul Krugman has worked extensively on the liquidity trap, claiming that it was the problem confronting the Japanese economy around the turn of the millennium. Short-term interest rates were close to zero, long-term rates were at historical lows, yet private investment spending remained insufficient to bring the economy out of deflation. In that environment, monetary policy was just as ineffective as Keynes described. Attempts by the Bank of Japan to increase the money supply simply added to already ample bank reserves and public holdings of cash Less classically he extends this generalization to the schedule of the marginal efficiency of capital. We may construct a graph on Y,r coordinates and draw a line connecting those points satisfying the equation: Joan Robinson commented that: Hicks has now repented and changed his name from J. 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I agree, they are more apt to spend it than save it. No judgements, I just have seen this to be true. There may be something to that. If you want an ideal society with ideal people, you need a society that is balanced out of its natural animal state. All life on earth is in natural competition with itself for resources. If you have any reversion to primitive drives, which are literally central to the human brain, you have a dystopia. The world, as a matter of fact, has never experienced real Marxist, theoretical, communism, since it is supposed to represent the peak of human development and evolution. The real communism is like Nirvana: People are perfect, there are no states, no hate or wars. Everyone works for pleasure and for the sake of personal and social development. There is no greed or envy, everyone is equal, even when they compete among themselves. Yes, it is utopian, but not malicious. What we had as a system, was socialism, Leninism and Stalinism. Karl Marx never predicted that socialism would be achieved in feudal societies, like Russia was. He predicted that socialism would be achieved in Great Britain, USA, Germany and similar economically developed countries and the societies where the working class was established. As for Keynes, I appreciate his work and the idea, being a staunch social-democrat. There should be less personal greed among the super wealthy individuals who influence governments the most. Distribute the wealth, not simply by feeding the poor, but by educating them, giving them a chance and the opportunity. Lift the wages of the poorest, and substantially. People do not need personal planes, luxury yachts m long or gold plated toilets. Profit and greed are to be blamed for the worldwide crisis. How many rich people pay their fair duties and taxes to their countries? How many offshore accounts are there, as well as safe heavens to avoid taxes? The rich are richer, the poor are poorer, and the middle class is disappearing. Confiscatory taxation; redistribution of wealth; a nanny state; class warfare; low interest rates leading to increased speculation and risk since you get little return from traditional savings ; the destruction of national sovereignty; increased immigration of unskilled labor; endless wars and militarization of society since defense spending leads to the cycle of monetary flow ; consumerism read materialism and narcissism ; Bloated and intrusive government bureaucracy. Government is never the solution. What is government but a cabal of people given power? Power corrupts and absolute power which is what we are heading towards corrupts absolutely. Reward the the rabble at the expense of the productive populace. Pure communism at its basic tenets. Are there any European countries about to go under? Keynesian economics, like communism requires someone in power and as we know, even the well intentioned get corrupted by power and money. What strikes me in many of the posts is the desire to put people in classes. Just because some have lots of money is far from saying they are better than I am. Those are the only ones who can possibly accept its ideas. Real free market capitalism not crony capitalism is the only proven system that can provide wealth and opportunity to all. In a real free market, monopolies, corruption and all other evils are unable to exist. Most of the laws passed by Clinton did not take effect until after he was out of office. While in office, Clinton cut over 10, border patrol jobs then later opened 1, border patrol jobs and had the media make out like he was creating jobs and such a great guy. Not He cut most of the remaining aid to our farmers which destroyed many of our remaining small farmers who could not compete against corporate farms. Thanks to Willie Nelson for trying to help with Farm Aid for years. Clinton also cut welfare, which is barely a speck of our actual spending, but if you go back to originally setup, our federal funds were to pay for education, aid to the poor and poverty stricken here not in other countries , some military protection and support not for other countries , infrastructure and churches. Well they have cut churches, and most of the aid to the poor and infrastructure. Just research Federal Reserve and what the Americans should know about it. You will start learning what really happened to our economy. It is common sense if we had put money into infrastructure, the jobs created would have put money in peoples pockets, and they would have spent it. I own a business. If my taxes were zero, it would not cause me to hire more help. What made my business successful was the line of customers who had money to spend. Business now is completely different, all due to the GOP. Both are unethical and immoral. We live in a system that enslaves the population while enriching the nonproductive elite bankers and wall street speculators. Cennedig9 Post I must ask all future readers to pardon my American perspective. People act as if Keynesian Economics and laissez-faire capitalism are distinct theories. They say that the two are opposed to each other, and pretend that one must choose between them instead of taking the enlightened, educated route, and extracting the grains of truth present in each. Keynesian economics is quite plainly right in its statement that spending supports earning. The only two businesses that can survive without business are subsistence farms and hunter-gatherer societies. Any other form of business depends entirely upon the fair trade and beneficence of its customers, and more importantly, they depend upon the continued ability of those customers to trade fairly and buy beneficently. When businesses destroy the wealth of their customers, they lose their potential for business. Laissez-faire capitalism is also quite plainly right in its statement that individuals will not work if they do not have to. I think we must all recognize our inner drive to export our problems. Most people, for example, will not build themselves a home by hand if they have the money to pay for the home of someone else. Rich people find it easier to pay for a maid than to vacuum their floors. Since it is true that wealthy consumers create healthy economies, and since it is true that work is the only just prerequisite to wealth, the primary goal of economics should be twofold: First, for the sake of the business of the individual, it must ensure that the total population has a high median purchasing power, in order that there may be enough business to support free enterprise, and it must do it without robbing the rich to feed the poor. Second, for the sake of the broader society, it must ensure that all people are working to their highest potential, in order that there may be enough labor to fill the needs of all individuals, and it must do it without relying upon the desperation of the destitute. Speaking generally, America is easily recognized as having heavily failed the first goal. As a poor proletarian, I can personally attest that an American-sized wage disparity is not the result of a similar disparity in the effort put forth by the poor as compared to the rich. It can only come from an injustice in the system of distribution, a system in which some are paid more money for doing less work, and for accomplishing less for society. In a way, this puts America in severe danger of failing the second goal, because a society which rewards labor with poverty cannot possibly inspire the maximum potential of work. Again speaking generally, Europe is easily recognized as having failed the second goal. In a way, this puts Europe in severe danger of someday failing the first goal. Individuals who do not each earn the cushion of luxury they enjoy are unable to maintain collectively a stable and sustainable society. What we need most dearly in the Western world is a justice which encompasses both individual rights and societal responsibilities. The leaders of Europe must learn to reward labor and not mere existence, while the leaders of America must learn to reward labor and not mere power. Without such justice, the pan-Atlantic Euro-American society will fall together into the oligarchic feudalism of the past, through debt to commerce and to the triple giants of government responsibility, economic prosperity and national security. The heart of this matter is that the three are one, and that their power to destroy true justice here on earth has the potential to surpass all but God alone. You may believe if you wish that the powerful have worthy goals, that they are enlightened, that they are doing their best to work for the good of all, but look around you! They are not doing the good of all! It matters not whether the source is corruption or mere incompetence, for the two have identical effects and solutions: Anyone still reading this post is sure to be familiar with the fairy tale of the American Revolution. I call it a fairy tale because I sincerely doubt the rhetoric on both sides of the American aisle, which grants it some kind of regal, idealistic fantasy, instead of the realistic sense of revolutionary desperation which we down here in the real world can easily understand. The American Revolution should never have become a starting point on which we built our present society; it should have been the entire society, summed up in a document and re-enacted by every generation. Stable peace lies at the heart of a good economy, but Pax Romana can never lie at the heart of a just one. If justice is to reside in the West, then we all must ensure that the rich are not allowed to use the power of their money to gain more economic power, in the same way that we must ensure that governments are not allowed to use the power of their authority to gain more authoritarian power. What we need is a Revolution. No, not just another revolution of the American, French, Bolshevik, or Glorious kinds, for all of these were revolutions of power, in which individuals hoped to gain the power and authority to liberate man. What we need is a new kind of revolution, one against the very idea of power, a revolution of the heart and mind in which individuals recognize the need for justice in all facets of society. Low individual taxes, few government welfare programs, high funding for education and moderate funding for health per individual, but cuts to both the health and education bureaucracies. Military cuts and a Constitutional amendment which forbids the president from sending troops beyond the national borders except in time of war. An amendment setting term limits to two for all public offices except the President, who would be restricted to a single six-year term. Ban on political advertising during campaign years, except by the candidates themselves, who would be limited to a set amount of total campaign spending, regardless of the amount they actually raise. Banning all registered lobbyists from the grounds of the U. Capitol, even apart from professional duties, during times when Congress is in session. High corporate taxes, but tax breaks for companies that meet certain criteria, such as low wage disparity, high median and lower-quartile incomes, and high total domestic employment. These are the original ideas of a poor teenage product of education at a public institution. Most Congresspeople were educated at great expense by their upper-class families. Why then, are they the ones who must be called extremists? Also, allow me to ask:

Chapter 5 : Giants Of Finance: John Maynard Keynes

*Consumer Economics After Keynes: Theory and Evidence of the Consumption Function [George Hadjimatheou] on calendrierdelascience.com *FREE* shipping on qualifying offers.*

Compare Keynesian and classical macroeconomic thought, discussing the Keynesian explanation of prolonged recessionary and inflationary gaps as well as the Keynesian approach to correcting these problems. It is hard to imagine that anyone who lived during the Great Depression was not profoundly affected by it. Some 85, businesses failed. Hundreds of thousands of families lost their homes. By , about half of all mortgages on all urban, owner-occupied houses were delinquent. Louis Review 90, no. The economy began to recover after , but a huge recessionary gap persisted. The contraction in output that began in was not, of course, the first time the economy had slumped. But never had the U. Economic historians estimate that in the 75 years before the Depression there had been 19 recessions. But those contractions had lasted an average of less than two years. The Great Depression lasted for more than a decade. The economy did not approach potential output until , when the pressures of world war forced sharp increases in aggregate demand. The gap nearly closed in ; an inflationary gap had opened by The chart suggests that the recessionary gap remained very large throughout the s. The Classical School and the Great Depression The Great Depression came as a shock to what was then the conventional wisdom of economics. To see why, we must go back to the classical tradition of macroeconomics that dominated the economics profession when the Depression began. His Principles of Political Economy and Taxation, published in , established a tradition that dominated macroeconomic thought for over a century. He emphasized the ability of flexible wages and prices to keep the economy at or near its natural level of employment. According to the classical school, achieving what we now call the natural level of employment and potential output is not a problem; the economy can do that on its own. Classical economists recognized, however, that the process would take time. Ricardo admitted that there could be temporary periods in which employment would fall below the natural level. But his emphasis was on the long run, and in the long run all would be set right by the smooth functioning of the price system. Economists of the classical school saw the massive slump that occurred in much of the world in the late s and early s as a short-run aberration. The economy would right itself in the long run, returning to its potential output and to the natural level of employment. Keynes, in arguing that what we now call recessionary or inflationary gaps could be created by shifts in aggregate demand, moved the focus of macroeconomic analysis to the demand side. He argued that prices in the short run are quite sticky and suggested that this stickiness would block adjustments to full employment. Keynes dismissed the notion that the economy would achieve full employment in the long run as irrelevant. Keynesian economics The body of macroeconomic thought that asserts that changes in aggregate demand can create gaps between the actual and potential levels of output, and that such gaps can be prolonged. It stresses the use of fiscal and monetary policy to close such gaps. Keynesian economists stress the use of fiscal and of monetary policy to close such gaps. A reduction in aggregate demand took the economy from above its potential output to below its potential output, and, as we saw in Figure While the Great Depression affected many countries, we shall focus on the U. The plunge in aggregate demand began with a collapse in investment. The investment boom of the s had left firms with an expanded stock of capital. As the capital stock approached its desired level, firms did not need as much new capital, and they cut back investment. The stock market crash of shook business confidence, further reducing investment. We have learned of the volatility of the investment component of aggregate demand; it was very much in evidence in the first years of the Great Depression. Other factors contributed to the sharp reduction in aggregate demand. The stock market crash also reduced consumer confidence throughout the economy. The reduction in wealth and the reduction in confidence reduced consumption spending and shifted the aggregate demand curve to the left. Fiscal policy also acted to reduce aggregate demand. As consumption and income fell, governments at all levels found their tax revenues falling. They responded by raising tax rates in an effort to balance their budgets. The federal government, for example, doubled income tax rates in Total government tax revenues as a percentage of GDP shot up from Higher tax rates tended to reduce consumption and aggregate demand.

Other countries were suffering declining incomes as well. Their demand for U. The Smootâ€"Hawley Tariff Act of dramatically raised tariffs on products imported into the United States and led to retaliatory trade-restricting legislation around the world. This act, which more than 1, economists opposed in a formal petition, contributed to the collapse of world trade and to the recession. As if all this were not enough, the Fed, in effect, conducted a sharply contractionary monetary policy in the early years of the Depression. The Fed took no action to prevent a wave of bank failures that swept the country at the outset of the Depression. Between and , one-third of all banks in the United States failed. The Fed could have prevented many of the failures by engaging in open-market operations to inject new reserves into the system and by lending reserves to troubled banks through the discount window. But it generally refused to do so; Fed officials sometimes even applauded bank failures as a desirable way to weed out bad management! The short-run aggregate supply curve increased as nominal wages fell. In this analysis, and in subsequent applications in this chapter of the model of aggregate demand and aggregate supply to macroeconomic events, we are ignoring shifts in the long-run aggregate supply curve in order to simplify the diagram. The plunge in aggregate demand produced a recessionary gap. Our model tells us that such a gap should produce falling wages, shifting the short-run aggregate supply curve to the right. But we see that the shift in short-run aggregate supply was insufficient to bring the economy back to its potential output. The failure of shifts in short-run aggregate supply to bring the economy back to its potential output in the early s was partly the result of the magnitude of the reductions in aggregate demand, which plunged the economy into the deepest recessionary gap ever recorded in the United States. We know that the short-run aggregate supply curve began shifting to the right in as nominal wages fell, but these shifts, which would ordinarily increase real GDP, were overwhelmed by continued reductions in aggregate demand. President Franklin Roosevelt thought that falling wages and prices were in large part to blame for the Depression; programs initiated by his administration in sought to block further reductions in wages and prices. That stopped further reductions in nominal wages in , thus stopping further shifts in aggregate supply. With recovery blocked from the supply side, and with no policy in place to boost aggregate demand, it is easy to see now why the economy remained locked in a recessionary gap so long. Keynes argued that expansionary fiscal policy represented the surest tool for bringing the economy back to full employment. The United States did not carry out such a policy until world war prompted increased federal spending for defense. New Deal policies did seek to stimulate employment through a variety of federal programs. But, with state and local governments continuing to cut purchases and raise taxes, the net effect of government at all levels on the economy did not increase aggregate demand during the Roosevelt administration until the onset of world war. For a discussion of fiscal policy during the Great Depression, see E. By , increasing aggregate demand had pushed real GDP beyond potential output. A sharp reduction in aggregate demand had gotten the trouble started. The recessionary gap created by the change in aggregate demand had persisted for more than a decade. And expansionary fiscal policy had put a swift end to the worst macroeconomic nightmare in U. Key Takeaways Classical economic thought stressed the ability of the economy to achieve what we now call its potential output in the long run. It thus stressed the forces that determine the position of the long-run aggregate supply curve as the determinants of income. Keynesian economics focuses on changes in aggregate demand and their ability to create recessionary or inflationary gaps. Keynesian economists argue that sticky prices and wages would make it difficult for the economy to adjust to its potential output. Because Keynesian economists believe that recessionary and inflationary gaps can persist for long periods, they urge the use of fiscal and monetary policy to shift the aggregate demand curve and to close these gaps. Aggregate demand fell sharply in the first four years of the Great Depression. As the recessionary gap widened, nominal wages began to fall, and the short-run aggregate supply curve began shifting to the right. These shifts, however, were not sufficient to close the recessionary gap. World War II forced the U. Imagine that it is President Franklin Roosevelt has just been inaugurated and has named you as his senior economic adviser. Devise a program to bring the economy back to its potential output. Using the model of aggregate demand and aggregate supply, demonstrate graphically how your proposal could work. Many 18th- and 19th-century economists developed theoretical arguments suggesting that changes in aggregate demand could affect the real level of economic activity in the short run. Like the new Keynesians, they based their arguments on the concept of price stickiness. But a fall arising from temporary distress, will be attended probably with no correspondent fall in the rate of wages; for the fall of price, and the distress, will be understood to be temporary, and the rate of wages, we know, is not so variable as the price of goods. There is reason, therefore, to fear that the unnatural and extraordinary low price arising from the sort of distress of which we now speak, would occasion much discouragement of the fabrication of manufactures. In my opinion, it is only in this interval or intermediate situation â€¦ that the encreasing quantity of gold and silver is favourable to industry. Economists of the 18th and 19th century are generally lumped together as adherents to the classical school, but their views were anything but uniform. Many developed an analytical framework that was quite similar to the essential elements of new Keynesian economists today. Economist Thomas Humphrey, at the Federal Reserve Bank of Richmond, marvels at the insights shown by early economists: There was no single body of thought to which everyone subscribed. And second, you find out how much they knew. Answer to Try It!

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Chapter 6 : Keynesian economics - Wikipedia

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The central tenet of this school of thought is that government intervention can stabilize the economy Just how important is money? Few would deny that it plays a key role in the economy. British economist John Maynard Keynes spearheaded a revolution in economic thinking that overturned the then-prevailing idea that free markets would automatically provide full employmentâ€”that is, that everyone who wanted a job would have one as long as workers were flexible in their wage demands see box. Keynes further asserted that free markets have no self-balancing mechanisms that lead to full employment. Keynesian economists justify government intervention through public policies that aim to achieve full employment and price stability. The revolutionary idea Keynes argued that inadequate overall demand could lead to prolonged periods of high unemployment. Any increase in demand has to come from one of these four components. But during a recession, strong forces often dampen demand as spending goes down. For example, during economic downturns uncertainty often erodes consumer confidence, causing them to reduce their spending, especially on discretionary purchases like a house or a car. This reduction in spending by consumers can result in less investment spending by businesses, as firms respond to weakened demand for their products. This puts the task of increasing output on the shoulders of the government. According to Keynesian economics, state intervention is necessary to moderate the booms and busts in economic activity, otherwise known as the business cycle. There are three principal tenets in the Keynesian description of how the economy works: Private sector decisions can sometimes lead to adverse macroeconomic outcomes, such as reduction in consumer spending during a recession. These market failures sometimes call for active policies by the government, such as a fiscal stimulus package explained below. Therefore, Keynesian economics supports a mixed economy guided mainly by the private sector but partly operated by the government. Keynesians believe that, because prices are somewhat rigid, fluctuations in any component of spendingâ€”consumption, investment, or government expendituresâ€”cause output to change. If government spending increases, for example, and all other spending components remain constant, then output will increase. Keynesian models of economic activity also include a multiplier effect; that is, output changes by some multiple of the increase or decrease in spending that caused the change. If the fiscal multiplier is greater than one, then a one dollar increase in government spending would result in an increase in output greater than one dollar. Keynes the master Keynesian economics gets its name, theories, and principles from British economist John Maynard Keynes â€” , who is regarded as the founder of modern macroeconomics. But its precursor, A Treatise on Money, is often regarded as more important to economic thought. Until then economics analyzed only static conditionsâ€”essentially doing detailed examination of a snapshot of a rapidly moving process. Keynes, in Treatise, created a dynamic approach that converted economics into a study of the flow of incomes and expenditures. He opened up new vistas for economic analysis. He remembered the lessons from Versailles and from the Great Depression, when he led the British delegation at the Bretton Woods conferenceâ€”which set down rules to ensure the stability of the international financial system and facilitated the rebuilding of nations devastated by World War II. Stabilizing the economy No policy prescriptions follow from these three tenets alone. What distinguishes Keynesians from other economists is their belief in activist policies to reduce the amplitude of the business cycle, which they rank among the most important of all economic problems. Rather than seeing unbalanced government budgets as wrong, Keynes advocated so-called countercyclical fiscal policies that act against the direction of the business cycle. For example, Keynesian economists would advocate deficit spending on labor-intensive infrastructure projects to stimulate employment and stabilize wages during economic downturns. They would raise taxes to cool the economy and prevent inflation when there is abundant demand-side growth. Monetary policy could also be used to stimulate the economyâ€”for example, by reducing interest rates to encourage investment. The exception occurs during a liquidity trap, when increases in the money stock fail to lower interest rates and, therefore, do not boost output and employment. In fact, they believe that governments cannot know enough to fine-tune successfully. Keynesianism evolves Even though his ideas were widely accepted while Keynes was alive, they were also scrutinized and contested by several contemporary thinkers. Particularly noteworthy were his arguments with the Austrian School of Economics, whose adherents believed that recessions and booms are a part of the natural order and that government intervention only worsens the recovery process. Members of the monetarist school also maintained that money can have an effect on output in the short run but believed that in the long run, expansionary monetary policy leads to inflation only. Keynesian economists largely adopted these critiques, adding to the original theory a better integration of the short and the long run and an understanding of the long-run neutrality of moneyâ€”the idea that a change in the stock of money affects only nominal variables in the economy, such as prices and wages, and has no effect on real variables, like employment and output. Both Keynesians and monetarists came under scrutiny with the rise of the new classical school during the mids. The new classical school asserted that policymakers are ineffective because individual market participants can anticipate the changes from a policy and act in advance to counteract them. A new generation of Keynesians that arose in the s and s argued that even though individuals can anticipate correctly, aggregate markets may not clear instantaneously; therefore, fiscal policy can still be effective in the short run. The global financial crisis of â€”08 caused a resurgence in Keynesian thought. It was the theoretical underpinnings of economic policies in response to the crisis by many governments, including in the United States and the United Kingdom. As the global recession was unfurling in late , Harvard professor N. Although Keynes died more than a half-century ago, his diagnosis of recessions and depressions remains the foundation of modern macroeconomics. Keynesian economists are rectifying that omission by integrating the real and financial sectors of the economy.

Chapter 7 : George Hadjimatheou (Author of Consumer Economics After Keynes)

George Hadjimatheou is the author of Consumer Economics After Keynes (avg rating, 1 rating, 0 reviews, published), Economic forecasting (av.

Keynes shares his birthday, June 5th, with Adam Smith and he was born in , the year communist founder Karl Marx died. With these auspicious signs, Keynes seemed to be destined to become a powerful free market force when the world was facing a serious choice between communism or capitalism. Instead, he offered a third way, which turned the world of economics upside down. The Cambridge Seer Keynes grew up in a privileged home in England. He was the son of a Cambridge economics professor and studied math at university. After two years in the civil service, Keynes joined the staff at Cambridge in He was never formally trained in economics, but over the following decades, he quickly became a central figure. His fame initially grew from accurately predicting the effects of political and economic events. Keynes rightly pointed out that having to pay out the cost of the entire war would force Germany into hyperinflation and have negative consequences all over Europe. He followed this up by predicting that a return to the prewar fixed exchange rate sought by the chancellor of the Exchequer, Winston Churchill, would choke off economic growth and reduce real wages. The prewar exchange rate was overvalued in the postwar damage of , and the attempt to lock it in did more damage than good. On both counts, Keynes was proved right. Although blindsided by the crash, the adaptable Keynes did manage to rebuild his fortune by buying up stocks in the fire sale following the crash. Keynes believed that free-market capitalism was inherently unstable and that it needed to be reformulated both to fight off Marxism and the Great Depression. Among other things, Keynes claimed that classical economics â€”the invisible hand of Adam Smithâ€”only applied in cases of full employment. In all other cases, his "General Theory" held sway. Although ostensibly written to save capitalism from sliding into the central planning of Marxism, Keynes opened the door for government to become the principal agent in the economy. Simply put, Keynes saw deficit financing, public expenditures, taxation, and consumption as more important than saving, private investment, balanced government budgets, and low taxes classical economic virtues. Holes in the Ground Keynes backed up his theory by adding government expenditures to the overall national output. Still, by adding government to the equation, Keynes showed that government spendingâ€”even digging holes and filling them inâ€”would stimulate the economy when businesses and individuals were tightening budgets. His ideas heavily influenced the New Deal and the welfare state that grew up in the postwar era. To learn the differences between supply-side and Keynesian economics, read Understanding Supply-Side Economics. The War on Saving and Private Investing Keynes believed that consumption was the key to recovery and savings were the chains holding the economy down. In his models, private savings are subtracted from the private investment part of the national output equation, making government investment appear to be the better solution. Only a big government that was spending on behalf of the people would be able to guarantee full employment and economic prosperity. Magnifying and Simplifying It is easy to see why governments were so quick to adopt Keynesian thinking. It gave politicians unlimited funds for pet projects and deficit spending that was very useful in buying votes. Government contracts quickly became synonymous with free money for any company that landed it, regardless of whether the project was brought in on time and on budget. For example, Keynes assumed interest rates would be constant no matter how much or how little capital was available for private lending. This allowed him to show that savings hurt economic growthâ€”even though empirical evidence pointed to the opposite effect. To make this more obvious, he applied a multiplier to government spending but neglected to add a similar one to private savings. Oversimplification can be a useful tool in economics, but the more simplifying assumptions are used, the less real-world application a theory will have. The Theory Hits a Rut Keynes died in His theory continued to grow in popularity and caught on with the public. After his death, however, critics began attacking both the macroeconomic view and the short-term aims of Keynesian thinking. Forcing spending, they argued, might keep a worker employed for another week, but what happens after that? Eventually, the money runs out and the government must print more, leading to inflation. This is exactly what happened in the stagflation of the s. It ultimately fell upon Milton Friedman to reverse the Keynesian formulation of capitalism and reestablish free market principles in the U. Find out what factors contribute to a slowing economy, in Examining Stagflation and Stagflation, s Style. Keynes for the Ages Although no longer held in the esteem that it once was, Keynesian economics is far from dead. When you see consumer spending or confidence figures, you are seeing an outgrowth of Keynesian economics. The stimulus checks the U. Keynesian thinking will never completely leave the media or the government. For the media, many of the simplifications are easy to grasp and work into a short segment. For the government, the Keynesian assertion that it knows how to spend taxpayer money better than the taxpayers is a bonus. It helps strengthen the free market theory by opposition, as we can see in the work of Milton Friedman and the Chicago School economists that followed Keynes. Blind adherence to the gospel of Adam Smith is dangerous in its own way. The Keynesian formulation forced free market economics to become a more comprehensive theory, and the persistent and popular echoes of Keynesian thinking in every economic crisis caused free market economics to develop in response. Friedman once said, "We are all Keynesians now. We all use the Keynesian language and apparatus; none of us any longer accepts the initial Keynesian conclusions. Get a free 10 week email series that will teach you how to start investing. Delivered twice a week, straight to your inbox.

Chapter 8 : The Great Depression and Keynesian Economics

Keynesian economics developed during and after the Great Depression, from the ideas presented by John Maynard Keynes in his book, The General Theory of Employment, Interest and Money. Keynes contrasted his approach to the aggregate supply -focused classical economics that preceded his book.

Chapter 9 : What is Keynesian Economics? (with pictures)

Keynesian economics gets its name, theories, and principles from British economist John Maynard Keynes (), who is regarded as the founder of modern macroeconomics. His most famous work, The General Theory of Employment, Interest and Money, was published in