ECONOMICS OF JOHN MAYNARD KEYNES: A CRITICAL ANALYSIS

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Abstract

The Man Who Transformed the Economic World

One of the most influential economists of the 20th century was a British man named Keynes. Keynes joined the Treasury after the start of World War One, and following the signing of the Versailles Peace Treaty, he published "The Economic Consequences of the Peace," in which he criticized the exorbitant war reparations demanded by a defeated Germany and foresaw that it would encourage Germans to seek retribution. He achieved global fame because of this bestseller book. Keynes earned a sizeable personal fortune through the financial markets during the interwar period, and in his capacity as king's college's bursar, he significantly strengthened the college's financial standing. He rose to prominence as a patron of the arts and a member of numerous corporate boards. He married Russian ballerina Lydia Lopokova in 1926. "The General Theory of Employment, Interest, and Money", which is considered to be Keynes' most famous book, was published in 1936 and quickly set the standard for subsequent economic theory. In addition, it helped him maintain his status as Britain's most influential economist. When World War II broke out, he once more began working for the Treasury. He was elected to the House of Lords in 1942. Keynes was a key player in the discussions that shaped the post-war global economic order during the war years. He was in charge of the British delegation to the Breton Woods meeting in 1944, which took place in the US. He was crucial to the World Bank and International Monetary Fund's planning during the summit. He penned "the General Theory of Employment, Interest, and Money" during the Second World War. He is referred to as the "Father of Macro."

Keywords:
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Introduction

I. Keynesian Economics The economic theory known as Keynesian Economics is named for the British economist John Maynard Keynes (1883–1946). He is well recognised for his straightforward explanation of what led to the Great Depression. The central idea of Keynes' economic theory was a circular flow of money. According to Keynes' theory, when one person spends money from their wages, they are essentially supporting the profits of another person. Realizing that people's preferences for holding liquid financial assets, or "liquidity preference," was the key to Keynes' contribution. Pumping up the economy was Keynes' answer to this dire economic situation. To encourage expenditure, Keynes argued that the government should "prime the pump," either by expanding the money supply or by making purchases directly on the market.

A macroeconomic theory called Keynesianism, or Keynesian economics, focuses on the overall amount of expenditure in the economy and how it affects output inflation. In his 1936 book, The General theory of Employment, Interest, and Money, British economist John Maynard Keynes laid the foundation for it. According to Keynesian economists, when private sector decisions lead to inefficient macroeconomic outcomes or market failure, the government must take proactive policy measures. Therefore, Keynesian economics is in favour of a mixed economy that is primarily led by the private sector but is party controlled by the government. In contrast to "classical economics," which was founded on the views of economists like David Ricardo, John Stuart Mill, and Arthur Cecil Pigou, Keynes aimed to develop a new theory. Keynes came to the conclusion that the classical theory of markets acting as their own regulators was incorrect after observing what he called the failure of classical economics in the 1930s. Instead, he contended that low consumer spending in the private sector is the fundamental cause of the recession and high unemployment rates. Therefore, the

government must actively intervene to increase expenditure, if required through deficit financing, in order to achieve full employment and sustained economic growth.

II. Contribution towards the Field of Economics John Maynard Keynes, a British economist, is regarded as one of the three most influential economists of all time, together with Adam Smith and Karl Marx. He is largely regarded as the father of modern macroeconomic theory. Many decades later, his theories still have an impact on the economic and financial policies of Western governments. They upended the dominating paradigm of classical economics.

III. The Great Depression Real GDP fell by almost 30% between 1929, when the Depression officially began, and 1933, when the economy reached its lowest point. Real per capita disposable income fell by almost 40%. More than 12 million individuals lost their jobs, and the unemployment rate rose from 3% in 1929 to 25% in 1993. 85,000 enterprises were unsuccessful. Homes were lost by hundreds of thousands of families. John Maynard Keynes had started to construct a new framework for macroeconomic analysis; one that suggested that what Ricardo had called "temporary effects" may last for a very long period and at great expense. At the same time, Britain had entered its own depression. The General Theory of Employment, Interest, and Money, written by Keynes in 1936, changed the way many economists viewed macroeconomic issues. Keynes' contention appeared to be supported by the experience of the great depression. During a period of high unemployment, a decline in aggregate demand caused the economy's output to fall from above its potential level to below it. He advocated economic interventionism. He urged the government to spend on public works like programmes to generate employment in order to avoid the negative effects of business cycles, economic recessions, and depression. Keynes' fundamental principle was that excessive boom and bust cycles in an economy needed to be countered by interventionist government action. At the time, many economists advocated for minimal to no government interaction, therefore this was a substantial paradigm shift in their thinking. During the Great Depression, when many of Keynes' suggestions had an impact on the American and British governments, particularly Roosevelt's New Deal initiatives, Keynesian theories started to acquire popularity. While Keynes' theories took some time to catch on, they eventually did and for the following 40+ years they dominated the field of economic theory.

IV. Keynesians Theory Keynes stated that it was not a good idea to rely on markets to achieve full employment. He thought that the economy could reach any equilibrium and that the markets would not automatically adjust to fix the problem. The principal Keynesian theories cited in support of this view were:

- The labour market
- The market for loanable funds (money market)
- The Multiplier
- Keynesian inflation Theory
- Theory of Income, Output & Employment

The General Theory of Employment, Interest, and Money by John Maynard Keynes, which was published in 1936, laid the groundwork for modern macroeconomics. It challenged the widely held belief at the time, which was that an economy will return to full employment on its own following a downturn. One of the main ideas that Keynes promoted was the idea that saving and investment are determined independently of each other, with saving rates determined by a society's propensity to consume and investment being determined by an expected rate of return in relation to interest rates. He also held the view that a country's income was the total of its investments and consumption. This may potentially result in a never-ending cycle during a crisis where firms invest less, jobs are lost, consumers spend less, businesses have even less reason to invest, and so on. That's where the government steps in, in Keynes' opinion. He made the case that it was the government's duty to get involved and use the numerous resources at its disposal to encourage investment and consumption. This meant that in order to boost activity during difficult times, governments had to spend in deficit.

As a result, measures like lower long-term interest rates, public works initiatives, infrastructure investments, and similar ones would be implemented.
Many people mention Keynes' influence on Roosevelt's New Deal policies, however, the extent of Keynes' real influence on such policies is rather debatable. The acceptance of his theories near the end of the Great Depression and the adoption of Keynesian economics as de facto American policy moving forward are what are more generally recognized as being significant.

V. Bretton Woods, World Bank and IMF John Maynard Keynes made further contributions as well. He was a key participant in the 1944 Bretton Woods Negotiations, which took place as World War II was coming to an end. Keynes advocated the establishment of an international currency control organization and a world central bank along with others. Keynes had a key role in founding the bodies that would eventually become the World Bank and International Monetary Fund.
He is also remembered for what was thought to be a more comprehensive idea for a world reserve currency. Keynes advocated the use of the International Monetary Fund in his proposal.
He is also remembered for what was thought to be a more comprehensive idea for a world reserve currency. Keynes proposed deploying a currency he called the "Bancor" as a world reserve currency. The Bancor would be limited to 30 commodities, promote commodity price stabilisation, and achieve trade balance by taxing current accounts. The concept was not implemented, but discussions about it have continued up until the present.

VI. Resurgence In the 1970s, when the U.S. experienced recession, the oil crisis, and rapid inflation, Keynesian economics began to lose popularity. Leading economists like Milton Friedman criticized Keynesian ideas and pushed for a shift towards monetarist ideas, which were subsequently embraced. Although Keynesian economics never fully lost favour with decision-makers, it would go through something of a rebirth right before the 2008 financial crisis. The adoption of stimulus plans and significant government expenditure in the United States, Europe, and China to address the crisis signified its resurgence.

VII. Wage Expectations and Labour Adjustment Keynes also advanced the idea of expectations from the perspective of labour as a novel idea. Some critics have demonstrated that this could have been a novel approach for Keynes to assert that people lack reason, especially in the aftermath of the marginal revolution. Although a decline in nominal wages and an increase in price levels should be handled equally, according to Keynes, people are less resistant to price increases than they are to salary declines. Because of this discrepancy, the Neo-Classical theory's assertion that wage rates respond appropriately to shocks is false.
Keynes' ideas are criticized for causing inflation and, ultimately, slower long-term growth since the government is unable to allocate resources in a way that maximises efficiency. Friedrich Hayek, an Austrian economist, referred to Keynesian economic principles as a "fundamentally collectivist approach" due to their support for centralised planning. The experience of stagflation during the 1970s—high unemployment accompanied by high inflation—also disproved Keynes's theory that full employment could be obtained through inflation, which was considered to be demonstrated by the so-called "Phillips curve".

VIII. Keynesians Beliefs Keynes essentially claimed that the economy may stabilise in equilibrium at any level of unemployment and that markets would not necessarily lead to full-employment equilibrium. The circular flow of income can be used to demonstrate Keynesian ideas. Classical economics believed that if there was disequilibrium between leakages and injections, prices would adjust to bring the situation back into equilibrium. However, Keynes thought that the level of output, or national income, would adjust.

IX. Impact on our Current Society Overall, Keynesian Economics has little impact on the way our current economic system operates. However, in light of the current economic crisis, some of these

theories are being used to inform the design of reform initiatives like the stimulus and rescue packages. The military also relies on Keynesian theory to argue in favour of maintaining national security spending; arguing that doing otherwise would cause an economic downturn.

X. Criticisms of Keynesian Economics Higher interest rates and crowding out result from borrowing. In a downturn, Keynesian economics favoured widening the budget deficit. It is asserted that this results in crowding out. Bond interest rates increase as more debt is borrowed. Additionally, it indicates that less money is available for private sector projects.
Inflation: One issue with fiscal expansion is that it frequently occurs while the economy is already recovering leading to inflation.
Difficulty of Predicting Output Gap: Keynesian economics makes the assumption that it is easy to determine how much more demand must be generated in order to close the output gap.
Encouragement of Big Government Expenditure: Government spending rises during recessions but continues afterward, resulting in high tax and expenditure regimes.
Time Lags: Aggregate demand changes gradually; by the time AD rises, it can already be too late and inflation has set in.

XI. Conclusion

The Anglo-American economies began to experience issues at the beginning of the 1970s, and Milton Friedman and other critics who were doubtful about the capacity of governments to control the business cycle with fiscal policy also voiced their concerns. As a result, Keynes's influence waned in the decade. However, the onset of the 2007–2008 global financial crises gave rise to a revival of Keynesian ideas. Keynes was listed as one of the 100 most significant and influential figures of the 20th century by Time magazine in 1999, with the remark that "His radical idea that governments should spend money they do not have saved capitalism." According to The Economist, Keynes was a successful private investor, writer, philosopher, farmer, and member of the Bloomsbury Group of intellectuals. He was also a successful civil servant, director of the Bank of England, patron of the arts and an art collector, a director of the British Eugenics Society, and an advisor to several charitable trusts. He passed away in the United Kingdom on April 21, 1946, at the age of 62.

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