Keynes versus friedman essay

Keynes versus Friedman To begin with, I would like to say that these to economists made perhaps the greatest and the most significant contribution to economy in the twentieth century. They are beyond any doubt among most powerful intellectuals that set their feet over the ground. Ideas they created, patterns they discovered and laws they introduced have become fundamental in political economy and macroeconomics. Still, these two brilliant minds did not share each others' views over some basic economics matters, such as the intensity of governmental regulations, price policy, fiscal and monetary politics. Quite logically, a question arises: who was actually right, whose ideas explain the way economy behaves.

In other words, who is the winner in one of the greatest debates in the century? John Maynard Keynes (1883-1946), lay base for what is now called " Keynesian economics"; this school had a major impact on modern economic and political theory as well as on many governments' fiscal policies. In his work " The General Theory of Employment, Interest and Money" he states brilliant ideas over the unemployment and price regulations that should be applied by the government. Keynes was not only a brilliant scholar and professor, but a great manager as well. His experience at manipulating with currencies, creative and successful crisis management, through budget planning proves him to be a great at both economic theory and economic practice.

He argued that macroeconomic relationships differ from their microeconomic ones because the scales are absolutely different and this may lead to unpredictable changes in the final results. His work on employment went against the idea that the market ultimately settles at a state of full employment – a central foundation of Classical economists. Instead he argued that there exists an endless amount of equilibrium, the full employment equilibrium position being just one of them. The greatest contribution of this economist can be observed in the “ New Deal” that virtually saved the US economy during the great depression. Historians today argue over the level f influence that Keynes had in this course. No one still argues that it was quite significant.

In 1930-s it became quite clear, that the classical interpretation of market theory was being quite ineffective. The economic system remained in the state of stagnation for several years in a row and now positive tendencies were being observed. For some lasting period of time government officials relied upon Adam Smyth, who ones claimed that market is absolutely capable of self-regulation. This was the time for Keynes’s ideas to start working. He claimed that in the long run unemployment can cast a deadly shadow over the economy.

So, he proposed a simple, though extreme solution to the problem: create numerous, even low-effective jobs just to keep people away from their problems and to keep them occupied. Then, take over control over major companies and stimulate production to keep the funds circulating. Nationwide manipulation of the interest rate is also a necessary point that is supposed to stimulate the banking sphere of the country. These basic clues over government regulations in economy allowed the situation to start improving fairly fast.

The full zenith of Keynes’ economic thought occurred toward the end of his career, when he discovered the major mistake of classical economists, who held that, when goods were in surplus, the best role of government was to allow wages and prices to fall, until equilibrium was resumed. Falling prices would stimulate consumption, in other words: supply would create demand. Keynes argued that the best way to stimulate consumption was via spending by governments. To prove this theory Keynes developed highly sophisticated arguments, involving terms and concepts of his own, such as “ multipliers,” “ the marginal efficiency of capital,” “ liquidity preference,” and others.

One of his greatest achievements was the introduction of the Employment Act of 1946, which stated: “ The Congress hereby declares that it is the continuing policy and responsibility of the Federal Government to – promote maximum employment, production and purchasing power. It is considered that the only match for Keynes’s brilliance in debate was a classical economist – Milton Friedman. He was an American Nobel Laureate economist and public intellectual. Friedman was being a fierce advocate of economic freedom, he also made major contributions to the fields of macroeconomics, microeconomics, economic history and statistics. Keynes Was Right by Paul Hein 2002 by LewRockwell.

com http://www. lewrockwell. com/orig3/hein6. html Milton Friedman Source: Alan Walters, A Dictionary of Economics, The New Palgrave, Vol.

2 , http://60gp. ovh. net/~novacivi/friedman. html