

Good example of essay on keynes proposal to cure the great inter-war depression

[Finance](#), [Investment](#)



John Maynard Keynes is considered one of the greatest economists of the 20th century. He wrote the General Theory of Employment Interest and Money. Sheehan considers it the most important contribution to economists in recent history. He proposed policy prescriptions for saving the capitalist system from both the scourge of communism and saved it from itself. His contribution aided in driving policy after the Great Depression and the economic downturn of the 1930s. He furthered the idea that the free-market had no solutions to the sustained economic downturn. The old ways of reducing interest rates and old policy prescriptions were incapable of sustaining a recovery. Despite evidence to the contrary, Keynes was well aware of the threat of communism and a failure to find a sustained solution for the free-market capitalist system would prompt individuals to a dangerous consideration of communist economic policies.

Keynes' main argument is that government has the capacity to save the capitalist economy. He established the school of the middle-way which called for the reformation of the capitalist system. This reform would involve government active involvement in the economy by working in conjunction with the market to promote full employment and prosperity. The middle-way had the double effect of promoting both the state and the market. As Sheehan observes the Great Inter-War Depression was a wakeup call to unfettered markets (2013). It is out of the realization that the old economic orthodoxy had major flaws and was incapable of promoting full employment in a recovering environment that Keynes came up with his macro-economic ideas as they were presented in the General Theory. In it Keynes rejected saving as the cornerstone of well-functioning and developing economic

systems. His proposal for aggregate effective demand was a proposal for active government involvement in the economy.

Effective demand according to Keynes is considered the actual spending by consumers and investors. High effective demand means high profitability and increased employment (Sheehan 2013). In times of recessions, consumers and investors are mostly uncertain. Because of high levels of uncertainty, investors do not start new projects and consumers decide to save than spend (Heilbrunner 1997). Saving in recessions however lowers sales and affects businesses which in turn affect wages and employment numbers. Saving has its central place in the economy but it occupies this place during normal economic times rather than during recessions. When people keep money rather than spend it, Keynes calls it “ the paradox shift”.

An example of how spending helps during recession times is how the US economy has been performing economically during public holidays times since spending in this time creates employment though temporary.

It is apparent that during recession times people are not willing to part with their savings but money is still needed to jump start the economy and this is where the government comes in. Keynes suggested that government spending had a positive economic effect during the time of recession. To curb mass unemployment Keynes suggested that the government needed to spend and this spending also demanded that government borrow and run deficits (1936). In the General Theory Keynes makes a point that the free market had failed to curb mass unemployment (1972). He also noted that the agreed traditional remedies of lowering interest rates was on its own not effective enough to reduce unemployment and foster economic growth.

Recession times were difficult times in which most individuals dreaded borrowing money. Financial institutions were also aware of low interest rates so they barely gave out loans.

In his writings on the employment multiplier, Keynes argued that through public infrastructure programs people would be able to find work and suppliers would find buyers for their goods. This in turn helps in increasing spending since individuals involved in public work would have more money to spend. Through this process, private business can also see a rise in demand for their goods and services as well. The public works programs have the potential to build private business confidence leading to more private sector hiring and in the end a rejuvenation of the economy. Workers from both the private sector hiring and those in the public works programs would increase demand by spending their wages.

A recent example of the employment multiplier at work is the American Recovery and Reinvestment Act (ARRA) of 2009. With ARRA, the Obama administration set to jump start the economy by making investments in infrastructure, renewable energy, education and health. It was grounded in Keynesian thinking that government investment in public programs would create jobs and demand for suppliers leading to the overall growth of the economy and creation of economy. Even though there have been debates as to the number of jobs created, the number of Americans out of work and the nature of the recovery, ARRA helped the economy slide into positive growth and employment gains. ARRA also came with another Keynesian ingredient to ending depression which is lower interest rates (Sheehan 17).

At the present moment the United States Federal Reserve is now considering

raising interest rates since there has been marked growth in the economy. Orthodoxy economists have argued against Keynes' deficit spending. They note that in the long run the economy has a way of righting itself; government involvement is unnecessary and detrimental to the smooth function of the market. This argument is grounded in the classical economic principle that the free-market should not be tampered with. The invisible hand has got ways to make the economy grow again.

Socialized investment was considered by Keynes to be one of the solutions to capitalism's ills. He clearly argues that by socialized investment, he did not mean bringing socialist thinking and policies into the fray. Socialized investment did not pertain to the government ownership of the means of production. It was supposed to bring a balance between consumption and investment that in the end would ensure high effective demand (Keynes 1936). Socialized investment pertained to the creation of an environment that allowed increased investment and less money hoarding.

In conclusion, the macro-economic theory of John Maynard Keynes revolutionized modern thinking about free-market capitalism and government. Judging by recent Western government reaction to the recession of 2008-9, Keynes' ideas are still relevant today as they were relevant in the 1930s. Governments are still forced to create employment during recession times by borrowing and investing in massive public works programs like infrastructure and education programs, in the long run a boost is expected in spending which later aids in the growth of the private sector. The employment multiplier is considered one of the key pieces of Keynes' arguments. The creation of jobs by the government has a domino effect on

the private sector and consumer behavior. Suppliers and investors are able to take advantage of the government's active role in boosting their own businesses. The recent decision by the United States' Federal Reserve to increase interest rates proves that Keynesian monetary theory has practical relevance today. Socialized investment is also a key part of Keynesian solution to the great depression. It asks for more investment and less money hoarding, thereby maintaining effective demand.

References

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