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Homework: John Maynard Keynes

From my reading of the March 29, 1999 *Time Magazine* article on Keynes the following two ideas are prominent:

1) That the market does not self-correct at full-employment. Market equilibrium can be obtained at sub-optimum employment levels due to insufficient demand during times of an economic slowdown as low or negative economic growth means less investment, which means less employment and less employment means continued decrease in consumption demand and so forth; a downward spiral with insufficient demand and low employment. This Keynes' idea was counter to then-current classical economic thinking which said that the market corrects itself in the long-run to full employment, and
2) Government is necessary to step-in with spending programs to increase – 'supercharge' – demand to stop the downward cycle and to increase the demand for labor (employment) which then increases the demand for consumption, and onward until the market is at equilibrium at full employment. A corollary to this is that government budget deficits are not a burden on the economy during economic slowdowns in that the deficit spending negative effects are countervailed by the positive effects of the government increase in demand, that 'crowding out' does not occur at sub-optimal employment levels.

These are important ideas in that they helped to explain at that time the then-misunderstood causes for the Great Depression and its continuance. It might also be said that these ideas were important at the time because it gave desperate government leaders an option for trying to end the Depression.

That being said, although not part of the homework assignment, I would like to give my reasons for my aversion to Keynes' ideas. First off, he said that "in the long-run we are all dead" and that government intervention is necessary in the short-run to provide employment. I have a deep moral and philosophical aversion to this concept. In the long-run we are not all dead. Our children and our children's children will continue to bring forth humanity. Yes they too will be dead but they will have children as well, to think otherwise is hopelessly fatalistic. "In the long-run we are all dead" is a selfish, unsupportable and nihilistic moral position.

I also have a deep philosophical aversion to government intervention in the economy. Government by definition spends other people's money, it is morally wrong to think that someone else can know what is best to do with the fruits of your labor than you yourself. F.A. Hayek, who, not Keynes, probably was the greatest economic philosopher of the 20th Century, had a concept for this called the “fatal conceit”. It is arrogant and degenerate to think that you are smarter than someone else and to think that you know what is better for them than they know themselves.

An extreme example of my objections to Keynes is given in the *Times* article itself when it mentions how when Keynes was at the British Treasury Department he bought French paintings to balance the current account deficit with France. He bought fine art with money which belonged to the British taxpayer, how does this add to the productive capacity of the nation? I can and do fully understand the role of the wealthy in promoting culture and the arts, but through philanthropy not through the blood and sweat of the working man and woman. An intellectual darling does not a great economist make.

However, I do think that Keynes was a good economist. He had the courage to buck conventional wisdom and to devise new theories. His idea on the multiplier effect (the inverse of the Marginal Propensity to Consume) is a good one in understanding the layered effect of economic action on an aggregate scale. And his idea that a government deficit, however morally repugnant it may be to live beyond one’s means, does not cause economic harm has also proved true. I think that for these reasons even those who are adverse to his philosophical position have respect for Keynes as an economist.

One last, major, refute of Keynesian economic theory should go here. Keynes’ “big idea” was that government should step in to increase demand in times of economic slowdown. The other side of this equation is that government should run a surplus (decrease spending) in times of an economic upturn. This does not happen in the reality of our political system. Our Congress does not decrease spending except on rare occasions, and even then Congressional spending is based on political, not economic, rationale. And even if it was based on economic rationale the lag-time effects of the budget process does not make it practical to fine-tune the economy. It is for these practical reasons, ultimately, that Keynesian economics does not work on a national scale.

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