

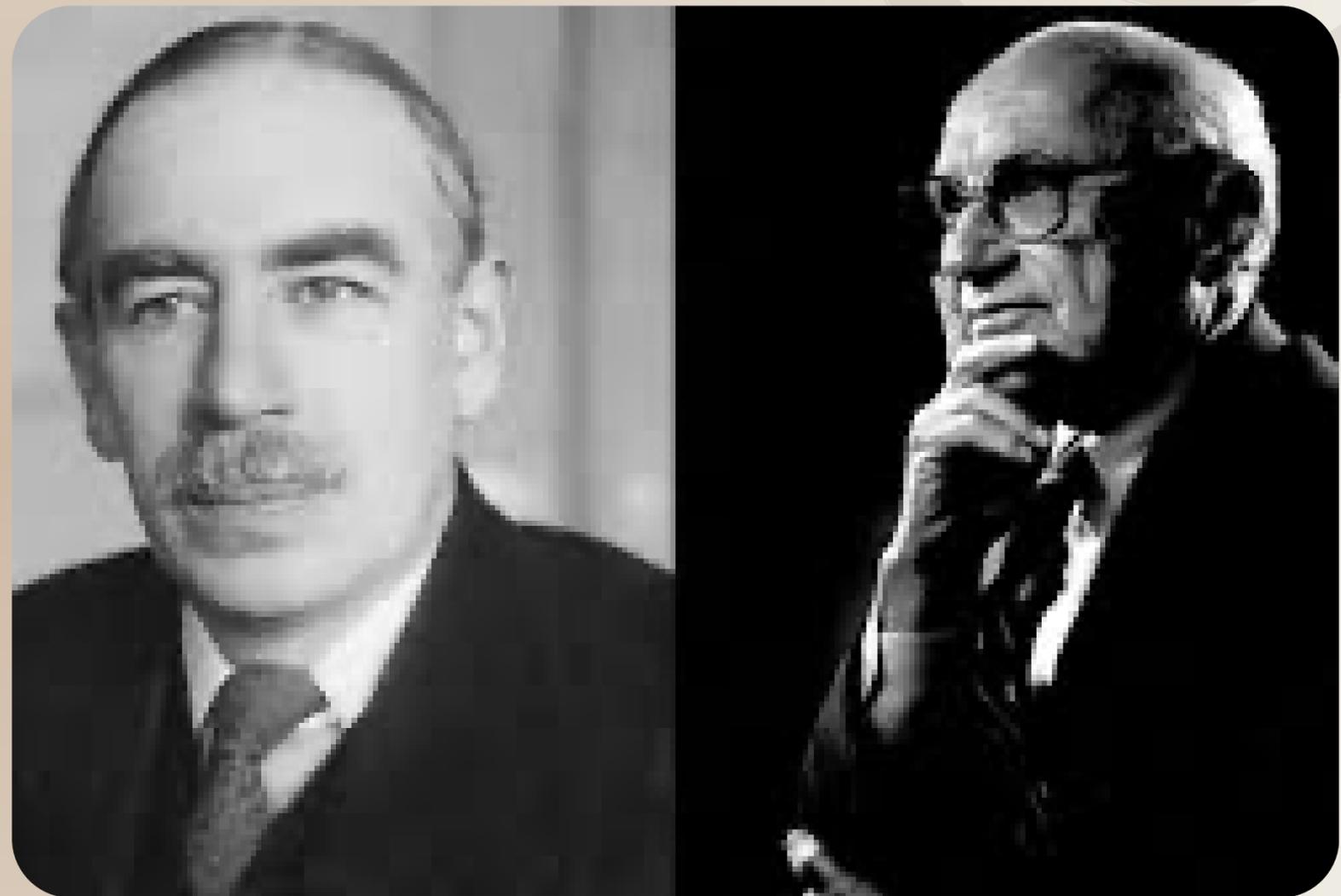


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Great Economy Thinkers

Are Keynes's criticisms of Friedman's economic policy justified?

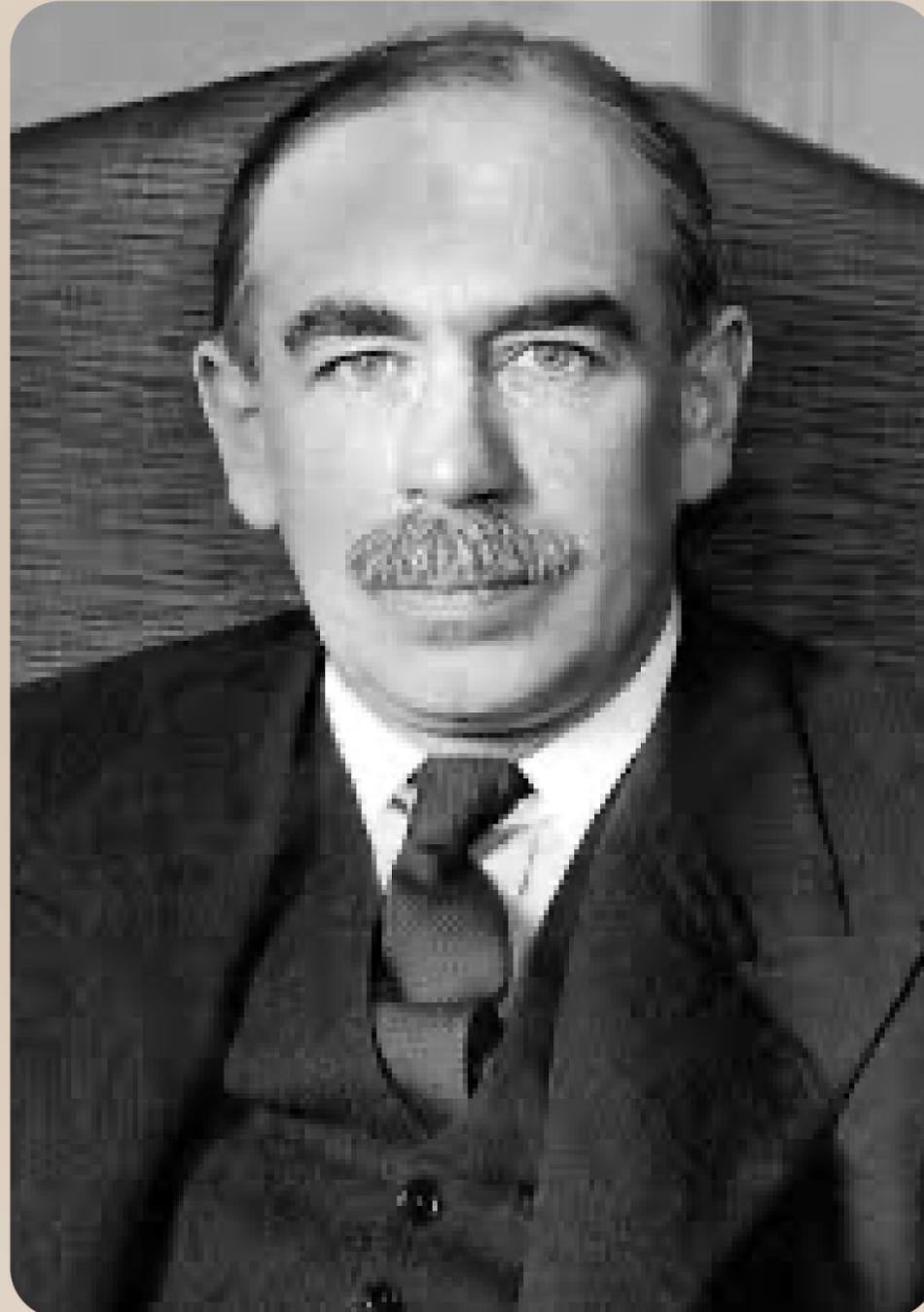
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Keynes's Ideas

- ✓ The economy can remain stuck in a crisis for a long time
- ✓ Aggregate demand (consumption + investment) is the main driver of growth
- ✓ Firms do not invest when expectations are pessimistic

→ He also emphasized that economic agents can be **irrational** and driven by **uncertainty**



Solutions

- ✓ Increase government spending
- ✓ Reduce taxes to boost consumption
- ✓ Launch public investment projects to create jobs

→ The market alone is not enough
government intervention is necessary

Friedman's Ideas

- ✓ The economy is generally stable in the long run
- ✓ Economic instability is often caused by poor government policies
- ✓ Inflation is always linked to excessive growth in the money supply



Solutions

- ✓ Strict control of the money supply
- ✓ Reduce government spending
- ✓ Limit state intervention in the economy

→ **The market is efficient**
too much intervention creates **distortions**

Keynes's Criticisms of Friedman

1. Insufficient response during economic crises

- Keynes would argue that Friedman's policies rely too much on the idea that markets self-correct
- In reality, during deep recessions, demand collapses and businesses stop investing
- This can lead to a vicious cycle: low demand → low production → unemployment → even lower demand

2. Excessive focus on inflation over unemployment

- Friedman prioritizes controlling inflation through monetary policy
- However, Keynes believes that in the short run, unemployment is the more urgent problem
- High unemployment has strong social and economic costs:
 1. lower income
 2. increased inequality
 3. social instability

3. Overconfidence in rational markets

- Friedman assumes that individuals act rationally and markets are efficient
- Keynes challenges this with the idea of "animal spirits":
 - emotions
 - uncertainty
 - sudden loss of confidence
- During crises, investors and consumers may panic, reducing spending even further

Are the Criticisms Justified ?

Keynes's criticisms are highly relevant in times of economic crisis

- During major crises such as the **2008 financial crisis** and the **COVID-19** pandemic, aggregate demand collapsed and unemployment increased significantly.
- In these situations, private investment declined sharply due to uncertainty and lack of confidence.
- Relying only on market self-correction, as Friedman suggests, would likely have prolonged the recession.
- Government intervention helped stabilize the economy and restore demand.

→ This supports Keynes's argument that markets can fail in the **short run** and require **active state intervention**.

Keynes's criticisms are highly relevant in times of economic crisis

- The **economic situation of the 1970s** showed the limits of Keynesian policies.
- Expansionary fiscal policies contributed to high inflation without effectively reducing unemployment.
- This led to **stagflation**, a situation that Keynesian theory struggled to explain and manage.
- Monetarist policies inspired by Friedman, focused on controlling the money supply, helped reduce inflation.

→ This demonstrates that **excessive government intervention** can create **long-term instability** and macroeconomic imbalances.

Keynes's criticisms are therefore partially justified

- They are **valid in the short term**, especially during **crises**.
- However, they **overlook long-term risks** such as inflation.
- In practice, both Keynesian and Friedman-inspired policies are needed.

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