

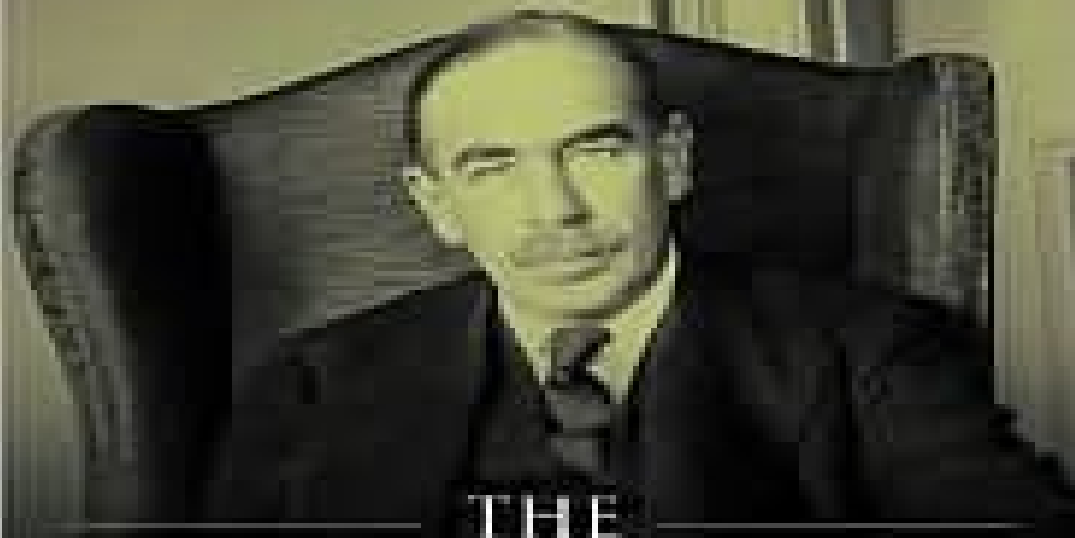


***John Maynard Keynes***

***"The difficulty lies not so much in developing new ideas as in escaping from old ones"***

***Dr David Rees***

JOHN MAYNARD KEYNES



THE  
**GENERAL  
THEORY**  
OF EMPLOYMENT,  
INTEREST, AND MONEY

THE CLASSIC WORK AND FOUNDATION  
OF MODERN-DAY ECONOMICS

"One of the greatest works of the 20th century."

A world's greatest revolution. — *The Economist*

**1883-1946**

**British**

**Founder of Keynesian  
Macroeconomics**

**(Western economic paradigm  
From +/- 1920 - 1978)**

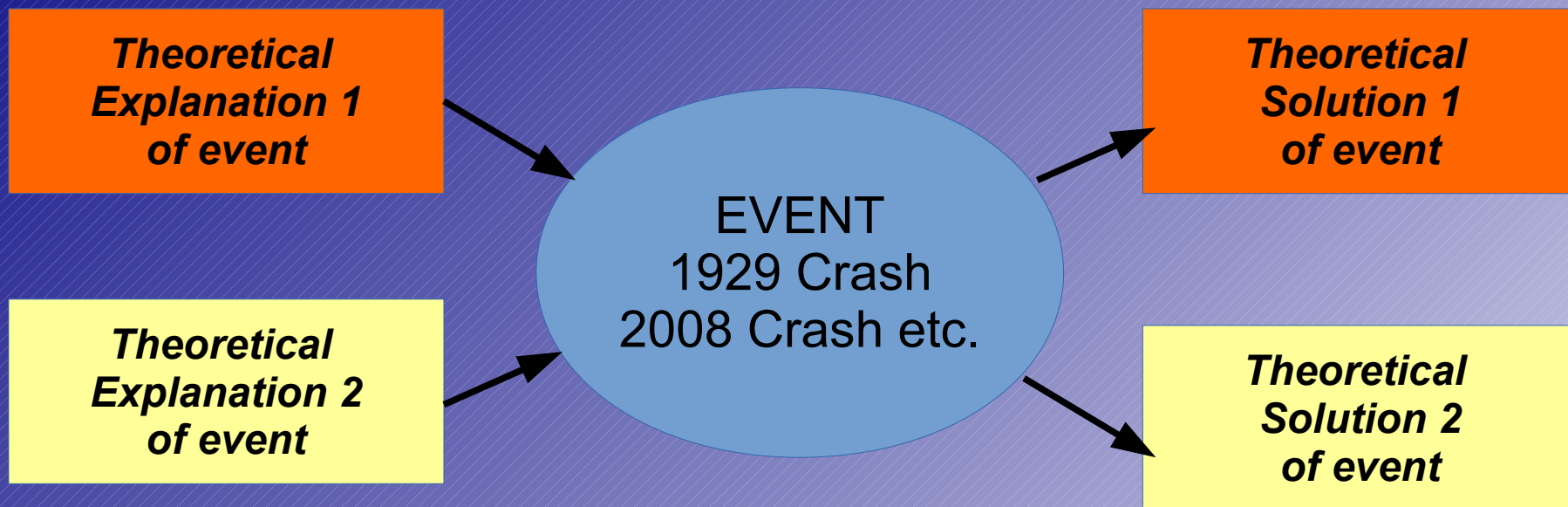
# Main Achievements

- The Treaty of Versailles (Paris Peace Conference) 1919.
  - The Economic Consequences of the Peace
- The Bretton Woods Agreement (1944)
  - Keynes vs Dexter White

# Main Objectives

- Role of government to control the economy
- Full employment
- Monetary (IR and Money Supply) and fiscal control (taxation) to deal with inflationary / deflationary economic cycles (macroeconomics)
- Regulated exchange rates
- Stability mechanism for international trade

**Main Keynesian principles**  
**Government should intervene to provide full employment.**



**The government usually selects the theory of the 'current paradigm' to explain and resolve the event. The paradigm has shifted over the years. Some countries have different paradigms (USA / EU have moved from Keynesian to Neo-Liberal monetarist paradigm;  
Ecuador, Chile, Bolivia, Paraguay... moved from imposed Neo-liberalism to Socialism, etc.)**

## The 2008 Sub-primes Crash. Two different theories

Neo-liberal / Monetarist. (Quantity theory of money) (Chosen solution)

**Cause: Collapse due to instability in money supply**

**Solution: Increase money supply - Quantitative Easing**

**- provide banks with bailout money (to cover subprime losses) plus liquidity**

Keynesian theory. (Employment)

**Cause: Collapse due to instability of investment (Fall in industrial investment following the dot.com bubble, de-industrialisation, poorer returns from industry, creation of speculative financial investment)**

**Solution: Government action to increase aggregate spending (particularly via full Employment) and hence increase industrial output and investment.**

**Five years since the 2008 crash, over twenty million people remain unemployed or underemployed, while wages continue to fall.**

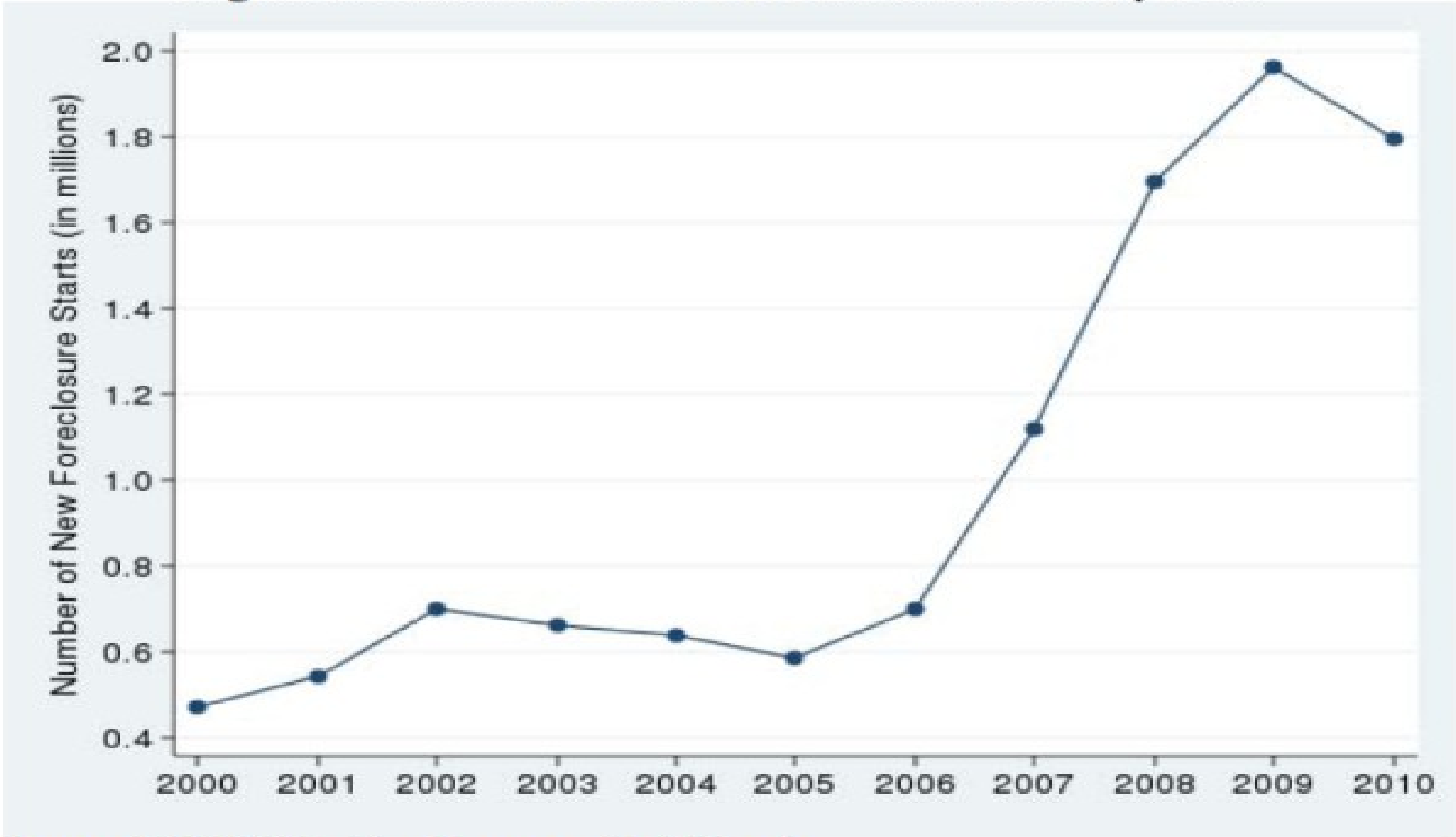
**Between 2007 and 2011, the US median household income has plunged by 11.6%, from \$57,143 (in 2011 dollars) to \$50,502.**

**Nearly five years after the economic crash, the Federal Reserve still underwrites the profits of the financial system through \$85 billion per month in asset purchases, half of which go to prop up toxic mortgage-backed securities held by Wall Street.**

**TARP (Troubled Asset Relief Program) allowed the purchase of \$700bn polluted assets. TARP revenue has totaled \$441.7 billion on \$426.4 billion invested.**

*House foreclosures (non-payment + loss of house) from 2000 (450,000) to its peak in 2009 (1,980,000)*

**Figure 1. Number of New Foreclosure Starts by Year**



Source: FRBNY/Equifax Consumer Credit Panel.

*The monetarist solution fails because*

*The banks hold on to the money (cover debts, **pay bonuses**)*

*Interest rates to **business** and **consumers** remain high*

*Borrowing becomes increasingly difficult*

*Taxpayers money doesn't go into creating jobs and **infrastructure***

*Country increases deficit and debt*

*Social services cut to reduce deficit*

*Weakened companies can't borrow to invest in new equipment*

*Central banks provide money (**QE**) that makes banks richer while*

*austerity increases poverty and reduces social services.*



*The Keynesian solution should work because*

*The banks are rescued but govt. on the board (cover debts, no bonuses)*

*Interest rates to business and consumers are low (Fed guarantee keeps inter-banking loans cheap)*

*Borrowing becomes increasingly easy*

*Bank regulation (Glass-Steagall) increased*

*Taxpayers money goes into creating jobs and **infrastructure***

*Improved infrastructure benefits everyone*

*Country increases deficit and debt (money supply still increases)*

*Social services increased to create employment*

*Mortgage rescue to avoid / reduce housing collapse*

*Consumption increases due to security of employment*

*Strengthened companies borrow to invest in new equipment*

*Employment leads to consumption leads to investment leads to recovery.*

Rescue Plan – the Neo-liberals suddenly become Keynesian !  
President Obama announces \$787 billion fiscal stimulus (>5 % GDP)

- Tax cuts
- Subsidies
- Infrastructure spending
  - Energy investment
- Emergency unemployment benefit
  - Health care
  - Food aid

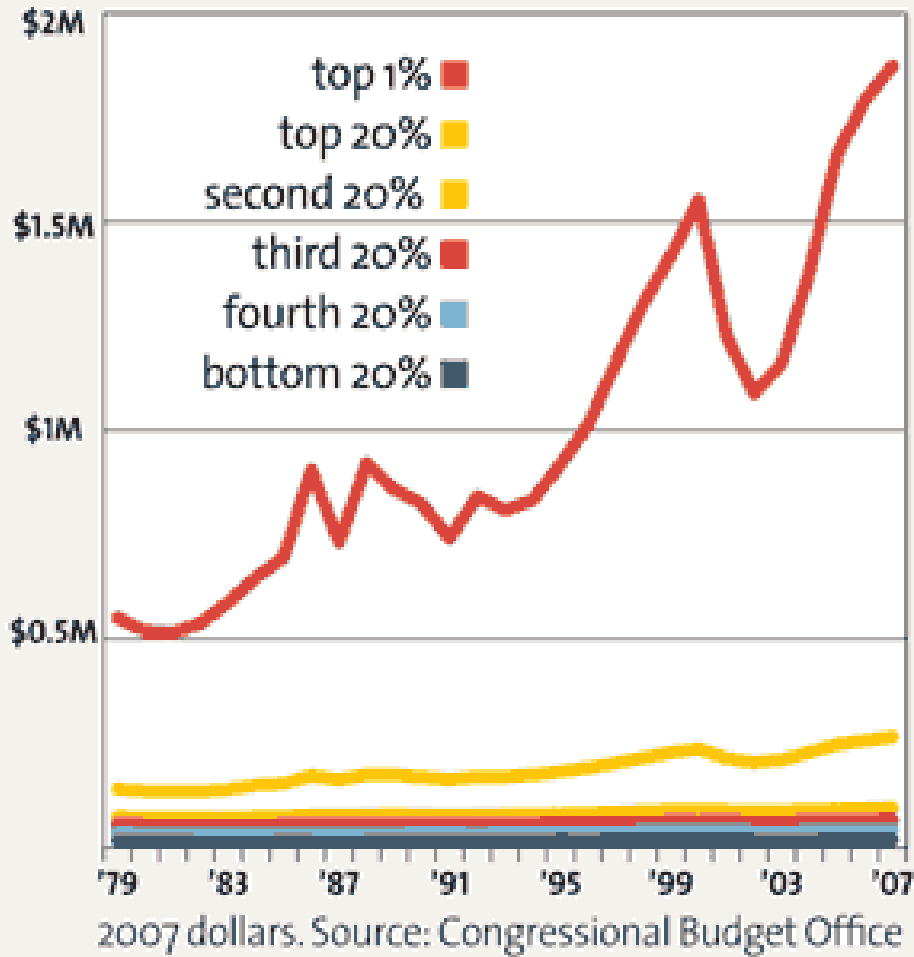
Quantitative Easing – the Central Bank buys government bonds from banks at a higher than market price hence providing the banks with liquidity to lend.

For Keynes, it is the spending of money not its creation which provides the stimulus.

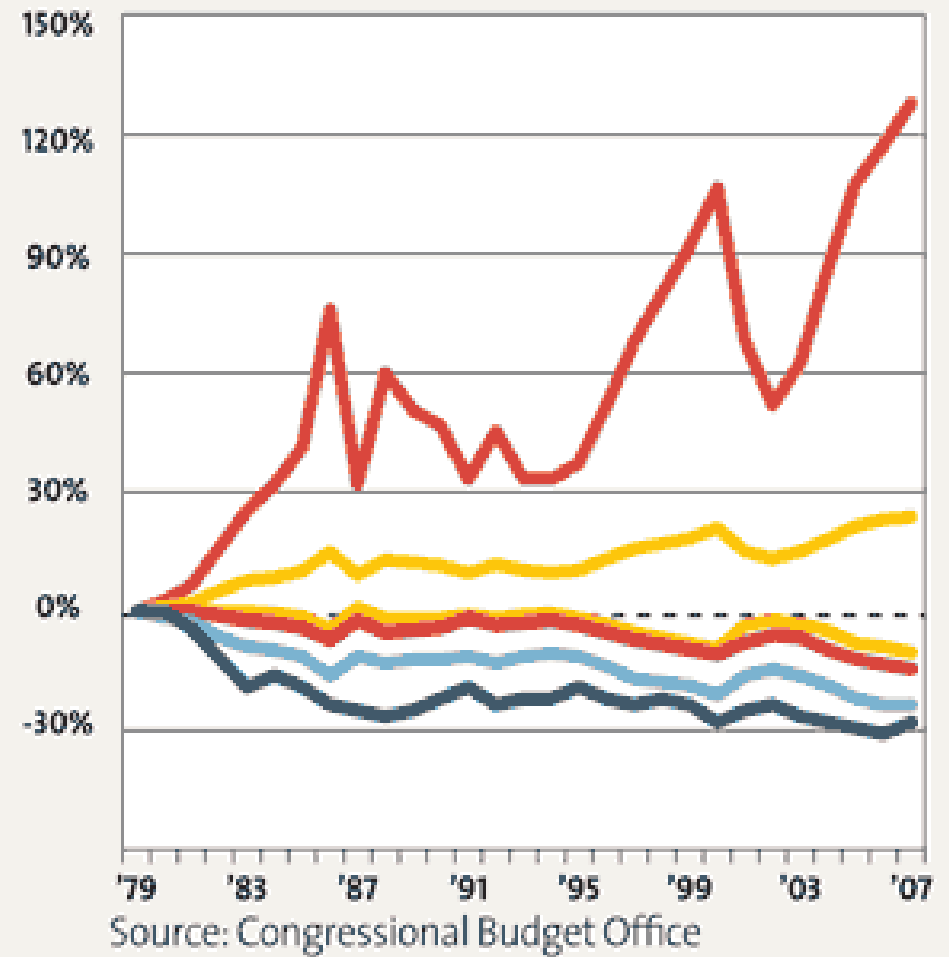
- Banks should hold on to their mortgages – hence subprimes would never have happened

The bankers' fault? Part of a wider intellectual and regulatory failure  
Reagan-Thatcher era exalted finance and humbled industry. Wealth was distributed disproportionately to the rich and the super rich.

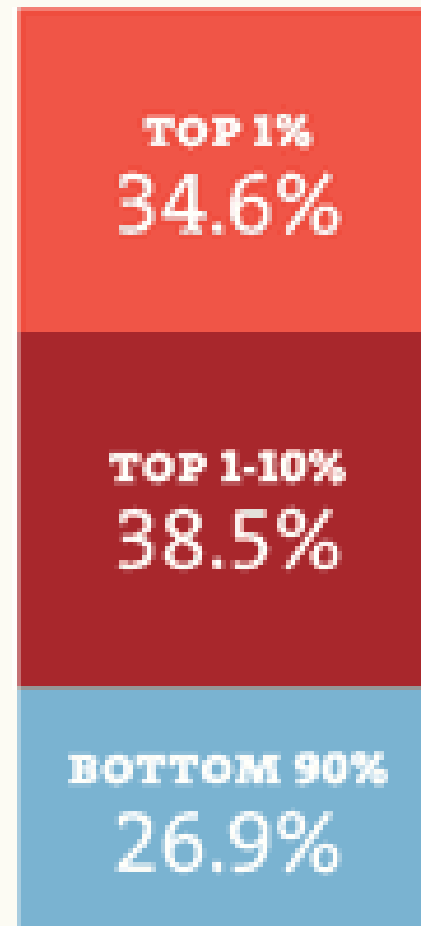
## AVERAGE HOUSEHOLD INCOME before taxes



## CHANGE IN SHARE OF INCOME vs. 1979, after taxes



The richest 10%  
controls 2/3 of  
Americans'  
net worth:



2007 data. Includes  
home equity. Sources:  
Edward Wolff, Bard  
College; Federal  
Reserve

**Keynes :**

***The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly supposed. Indeed the world is ruled by little else'***  
***JMK, Collected Writings, vii, p.383***

***At the root of the 2008 crisis was not failures of character or competence, but a failure of ideas. The present crisis is the fruit of intellectual failure of the economics profession.***

***From Adam Smith's 'invisible hand' to the current neo-liberal trend (1980s – now) with The Efficient Market theory, there is the assumption that shares and goods are always correctly priced via market forces.***

***EMT assumes that all risks are measurable (refuted by Keynes)***

***Keynes hated the 'mathematisation' of economics because it wasn't related to the real world and had no moral or philosophical input.***

# Reading

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