RASH
nt should
taxes
omic

OOM
seemed to
capitalism's
30 years,
were high
le had a
st at least.
s there
n and
ending
things
netarists
esians,
t
ad
the
so
on.
pointed
ding the
uld both
ction and
down.

KEYNESIAN ECONOMICS (NORMATIVE)

the 30-second theory

John Maynard Keynes diagnosed the Great Depression as a failure of aggregate demand: People didn't want to spend, and so the world economy spiraled downward. His prescription? The government should boost aggregate demand. In particular, it should boost its own spending to fill the gap in aggregate demand from the private sector. By spending on new projects, making transfers to people in need or cutting taxes, the government could boost demand. Firms would then employ more workers to produce more. Those workers would spend their paychecks, and you would have a virtuous cycle of growth that would get the economy out of the recession and reduce unemployment. Keynesianism became the most popular economic doctrine of the "golden age" of capitalism (1945–1973). The key idea was that governments have to intervene in the economy to ensure full employment; if the rate of unemployment was left to the free market, it would naturally run much higher. Government intervention took the form of public spending, tax cuts for workers, and transfer payments.

RELATED THEORIES

See also
CLASSICAL
page 12
AUSTRIAN SCHOOL
page 22
MONETARISM
page 48
SUPPLY-SIDE ECONOMICS
page 128
KEYNESIAN ECONOMICS (POSITIVE)
page 16

3-SECOND BIOGRAPHIES

JOHN MAYNARD KEYNES
1883–1946

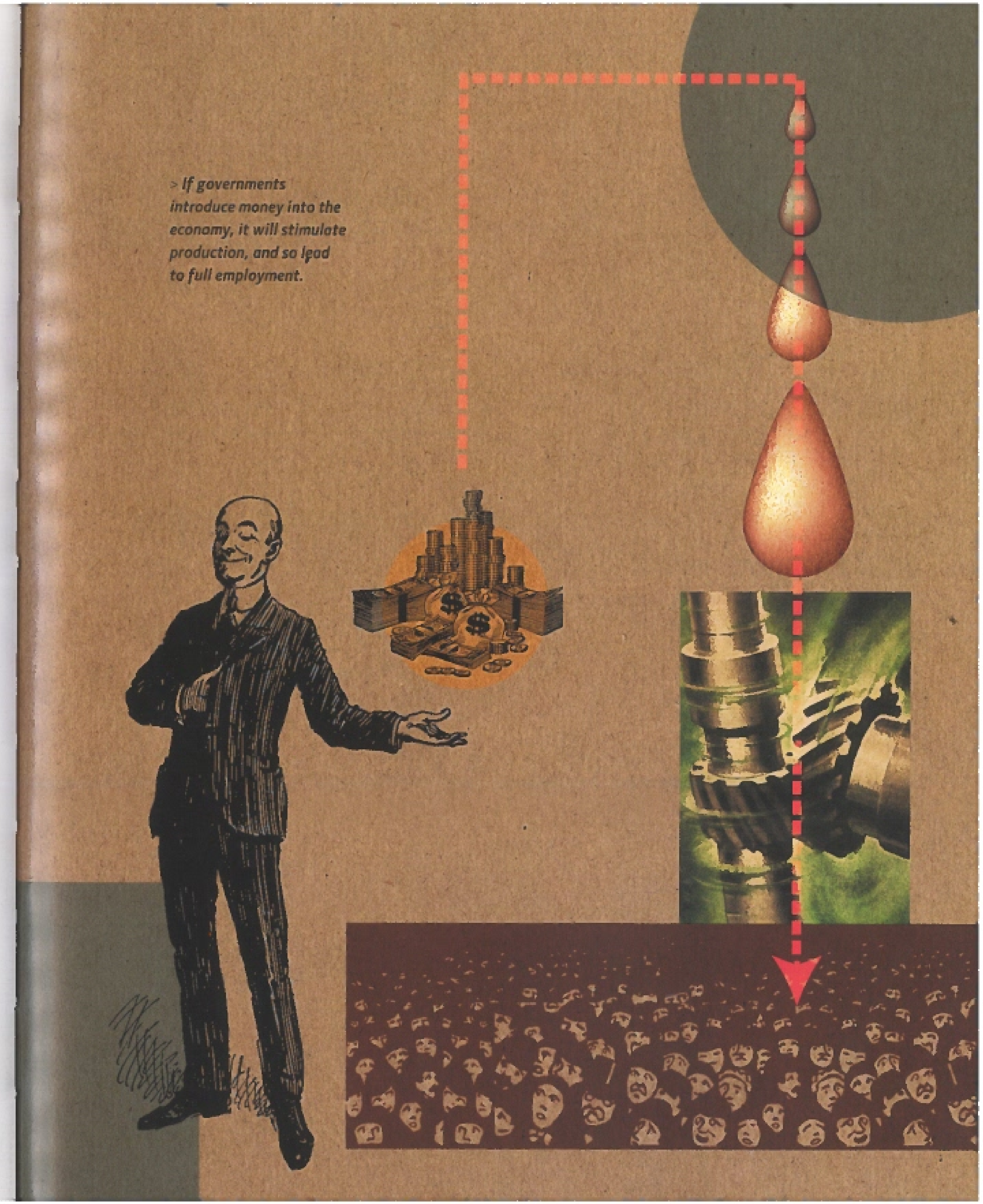
JOHN KENNETH GALBRAITH
1908–2006

30-SECOND TEXT

Christakis Georgiou

"The government should pay people to dig holes in the ground and then fill them up."

JOHN MAYNARD KEYNES



> If governments introduce money into the economy, it will stimulate production, and so lead to full employment.