The Man Who Saved Capitalism

John Maynard Keynes (pronounced to rhyme with “rains”) was the most influential economist of the twentieth century. His pioneering work, *The General Theory of Employment, Interest, and Money* (1936) has led to the development of macroeconomics.

Paradoxically, Keynes was born the year Karl Marx died (1883) as his Keynesian economics put Marxian economics to rest. He died when World War II ended (1946) as his revolutionary ideas helped the United States recover from the Great Depression and blossom into the major economic power of the time. Interestingly, Keynes agreed with Marx that capitalism is subject to frequent economic crises of high unemployment and insufficient demand. However, his solution was radically different and greatly superior to Marx’s capitalistic demise. As Robert Reich noted “Keynes transformed the dismal science into a revolutionary engine of social progress.”

To begin with, Keynes rejected the idea of his predecessors that labor markets would automatically correct themselves as wages fully respond to price changes. He asserted that under recessionary conditions when the demand for labor declines, wages do not readily fall. The falling labor demand and rigid wages create persistent unemployment. The recession could get deeper and last longer as more workers lose jobs and incomes. To recover, Keynes made the government responsible for creating jobs by increasing public spending and/or lowering income taxes. Within this context, he viewed fiscal policy as a short-term economic fix. “The long run is a misleading guide to current affairs,” Keynes proclaimed, “In the long run, we are all dead!”
Keynes was a remarkable individual. He studied mathematics at Cambridge University and was trained in economics under the great Alfred Marshall. Outside economics, he managed a theatrical company, collected modern art, married a ballerina, made a fortune in the stock market, served as the chairman of a life insurance company, became a director of the Bank of England, and wrote a mathematical treatise on his spare time. He was a member of the Bloomsbury Group, a fashionable society of Cambridge graduates, and played in Virginia Woolf and E. M. Forster. Keynes met Franklin Roosevelt, Winston Churchill, Bernard Show, Pablo Picasso, and Albert Einstein, among others.

At the end of World War I, Keynes took part in the British delegation to the Treaty of Versailles. Keynes was shocked at the level of reparations the Allies wanted to impose on the Germans. Keynes resigned from the British delegation saying it was a recipe for bankrupting Germany. He wrote the *Economic Consequences of the Peace* (1919), accurately predicting the difficulties Germany would have and the consequent political resentment of such a harsh peace treaty. In the 1920s, Keynes was a fearsome critique of Britain's decision to retain the gold standard at a pre-1914 level. He argued that this high value of sterling made life difficult for British exporters and became the main reason for Britain's rapid deflation and high unemployment.

The Great Depression (1929-33) gave Keynes the opportunity to refute the classical theory of *lazier fair* (i.e., hands off). At the outbreak of the Great Depression, the classical response was to balance the federal budget by tax increases and government spending cuts. He advised against a balanced-budget policy because it would make the recession deeper and longer. Keynes suggested the government needed to do the exact opposite of increasing public spending to engage unemployed resources. Through government spending commitments, Keynes argued the economy would find a tendency to recover.

In 1936, publication of his path-breaking book in 1936 provided a framework for economic stability and growth. After World War II, to varying degrees, governments pursued Keynesian policies to achieve full employment. In the United States, President Nixon declared, "We're all Keynesians now." However, the Keynesian theory of demand-side management was challenged in the 1970s and 1980s when the United States experienced high unemployment and rapid inflation at the same. Under such difficult conditions, the Keynesian solution of fiscal expansion to increase employment accelerated inflation. While his remedy of fiscal contraction to slow inflation increased unemployment. In recent years, Keynesian economics has made a come back during the Great Recession (2008-2009), when Presidents Bush and Obama stimulated the economy by massive public spending in the form of bailout and recovery packages.

Keynes died tragically from a heart attack in 1946, just as he was helping to implement the post war economic settlement. But, his revolutionary ideas of government involvement in economics made him the man who saved capitalism from a near demise.
Sources:
John M. Keynes Biography, Biography Online, http://www.biographyonline.net/writers/keynes.html