

ASPECTS REGARDING THE APPEARANCE AND THE EVOLUTION OF KEYNESIAN DOCTRINE

DOINA GEANINA FLORESCU, DANA CONSTANTINESCU, MARIAN NICOLAE, LAURA HARCAN, FLORENTINA EREMIA

*Bioterra University of Bucharest, Gârlei Street, no 81, District 1, Bucharest, Romania;
E-mail: geanina.florescu@yahoo.com*

Key words: the Keynes's, markets economies, unemployment, stability, macro economy

ABSTRACT

This present paper is based on the importance of the keynesian doctrine in time and tries to make a brief foray into the life and work of John Maynard Keynes, revealing important aspects related to the new concepts this doctrine brought in the history of economic thought, looking at the same time to the criticism addressed to the keynesism and studying the effects they had in the development study of economic science. The objective of this theory is "the analysis of the mechanism of the market economy in order to ensure sustainable development, reducing or eliminating the disequilibrium, when it is not verified in practice the idea of the self equilibrium through the price mechanism."

Keynes wrote in an era marked by mass unemployment, by degradation and suffering at an incredible level. A reasonable person could have supported the failure of capitalism, concluding that only major institutional changes - perhaps nationalization of means of production - could restore economic health.

INTRODUCTION

In time there was spread the idea that economic science is based on the work of the three titans: A. Smith, K. Marx and J.M. Keynes. First they say that he read the secrets of free market economy and stressed the virtues increasing the wealth of nations; the second investigated the contradictions and the laws that govern the economy going to fall, claiming its replacement with the planned economy, and the third one argued that the market-based economies can be saved from collapse if the society, by state, oblige them to organization, control and conduct. In this sense, Keynes can be considered the theoretician of the organized capitalism, by which he saw a way to save the Western civilization.

This present paper is based on the importance of the keynesian doctrine in time and tries to make a brief foray into the life and work of John Maynard Keynes, revealing important aspects related to the new concepts this doctrine brought in the history of economic thought, looking at the same time to the criticism addressed to the keynesism and studying the effects they had in the development study of economic science.

MATERIAL AND METHOD

This chapter aims to achieve a detailed analysis of issues related to full employment versus unemployment. Inconsistencies between the model and operation of neoclassical economics, he began to develop a comprehensive theory, which moves the economic analysis from the micro to macro level. The objective of this theory is "the analysis of the mechanism of the market economy in order to ensure sustainable development, reducing or eliminating the disequilibrium, when it is not verified in practice the idea of the self equilibrium through the price mechanism."

RESEARCH RESULTS

In time there was spread the idea that economic science is based on the work of the three titans: A. Smith, K. Marx and J.M. Keynes. First they say that he read the secrets of free market economy and stressed the virtues increasing the wealth of nations; the second investigated the contradictions and the laws that govern the economy going to fall, claiming its replacement with the planned economy, and the third one argued that the market-based economies can be saved from collapse if the society, by state, oblige them to organization, control and conduct. In this sense, Keynes can be considered the theoretician of the organized capitalism, by which he saw a way to save the Western civilization.

This present paper is based on the importance of the keynesian doctrine in time and tries to make a brief foray into the life and work of John Maynard Keynes, revealing important aspects related to the new concepts this doctrine brought in the history of economic thought, looking at the same time to the criticism addressed to the keynesism and studying the effects they had in the development study of economic science.

This paper starts with some simple questions: Who was John Maynard Keynes? Why we have to study this doctrine? Is it still in trend? There are still economists who believe in the keynesism? Etc.

John Maynard Keynes (1883-1946) was a complex personality of the XX century. He remained popular in the history of economic thought for a revolutionary view over science and practice, by rethinking the economic role of the government in society, namely the use of monetary and fiscal measures for mitigation of adverse effects of recession, crisis and economic boom. Many economists consider him as one of the main founders of modern macroeconomics.

Speaking about Keynes a few years ago, Time magazine classified him among the more influential 100 personalities of the XX century, writing that "born in 1883, the year Karl Marx died, Keynes probably saved capitalism from itself."¹

Beyond its importance in the sphere of economy, as a professor at Cambridge and author of a new current of economic thought, Keynes seems to have lived more lives into a single one. He was directly involved in politics, standing for the Liberal Party in Britain in the interwar period, and as a civil servant in the Treasury. At the same time, he was a businessman and a speculator, managing to achieve an impressive fortune. He was among intellectuals who formed the famous Bloomsbury Group, which had a major influence on the interwar culture.

Economists spoke about Keynes not only in the XX-th century. He is a continuous character, about whom the press and economists still write. For over the past seventy years, The General Theory formed views even of those who have not heard of it, or who believe they disagree with it. It appears that the Keynesian doctrine is still a subject of debate, especially in the current context in which some economist associate words like "crisis" or "recession" with the name of Keynes.

Starting from such considerations, this paper attempts to record some aspects of the emergence, evolution and criticism of the Keynesian doctrine, starting from the life and work of J.M. Keynes and reaching up to study the most important concepts of the doctrine. Thus, the paper is structured in two parts.

The first part, entitled *THE PRESENT STAGE OF THE SCIENTIFIC RESEARCH OF THE KEYNESISM*, focuses on highlighting key elements of knowledge and understanding the work of J.M. Keynes. This part includes a brief foray into the life of the economist, and a brief incursion into his work. First Chapter, *LIFE AND WORK OF J.M. KEYNES*, conduct a review of the main writings of Keynes, starting from the premise that

¹ Keynes, J.M., *Teoria generală a folosirii mâinii de lucru, a dobânzii și a banilor*, Editura Publica, București, 2009, pp.7-9

he properly observed the trends of science and economic practices of the era. The scientific work of J.M. Keynes can be observed in: "The Economic Consequences of the Peace"(1919), "A Tract of Monetary Reform"(1923), "A Treatise on Money"(1930), "The General Theory of Employment, Interest and Money"(1936), "How to Pay for the War"(1940), numerous studies in magazines, book reviews, press articles. In all these he synthesized the progress of economic thinking. First chapter puts a special emphasis on "The General Theory of Employment, Interest and Money", about which Nobel Prize winner for Economics in 2008, Paul Krugman, said that "... is an epic journey toward intellectual enlightenment." With the publication of the General Theory, J.M. Keynes marked the onset of major mutations. Almost all the histories of economic thought stop to the Keynesian revolution and during almost half a century after Keynes the economics was rich in developments and debates, which marked changes in the economic landscape of economic thought, first, against the backdrop of state interventionism, affirming and dissemination of the keynesism, and then a reflux of the corresponding booming of the liberalism and the new current of thought.

The Nobel Prize winner for Economics in 2008, Paul Krugman says in the preface to the main work of Keynes (edition of 2009) that in principle, the General Theory may be expressed in four points:

- ✓ Economies may suffer, and often even suffer from a lack of overall demand, leading to involuntary unemployment.
- ✓ Automatic tendency of the economy to correct insufficient demand, if any, operates slowly and painfully.
- ✓ Conversely, government policies to increase demand can reduce unemployment quickly.
- ✓ Sometimes increasing the money supply will not be sufficient to convince the private sector to spend more, and government spending should be done.²

For a specialist in political economics, none of them - except perhaps the last point – sounds amazing and not even particularly questionable. But these ideas were more radical then, when Keynes proposed them; those ideas were even close to inconceivable. And the great achievement of the General Theory was exactly that of them to be conceived by economists.

By highlighting the sources of Keynesian methodology, in order to be able to see the new conception of the market economy brought about by Keynesianism, Keynes made the founder of macroeconomics. We also want to bring critical elements to classical theories while focusing on the theoretical foundation of Keynesian economic policies. Keynes made a critical examination of the prevailing economic theory officially accepted in Western countries - neoclassicism - and began to develop a comprehensive economic theory. General Theory of Keynes sought for the reported disruption of the economy, explained in many ways, to find practical solutions to mitigate or even remove the imbalances and revive the economic system as a whole. Shocked by blatant inconsistencies between the model and operation of neoclassical economics, he began to develop a comprehensive theory, which moves the economic analysis from the micro to macro level. The objective of this theory is "the analysis of the mechanism of the market economy in order to ensure sustainable development, reducing or eliminating the disequilibrium, when it is not verified in practice the idea of the self-equilibrium through the price mechanism."

The Keynesian doctrine starts from the importance they have in the Keynesian doctrine concepts such as: money and interest rates, savings and consumption,

² See Keynes, J.M., *Teoria generală a ocupării forței de muncă, a dobânzii și a banilor*, Editura Publica, București, 2009

investment, balance, imbalance, insufficient effective demand and under-employment, full employment etc. Starting from the definition of the concepts mentioned above and highlighting the characteristics of macroeconomics in the context of the XX century, this chapter aims testing the theory of J.M. Keynes on investments, seeking to answer the question: Does forecasts and the confidence in them matter?

In his work, Keynes explained the remaining behind of the consumption from production through the psychology of people, which usually and in average incline to increase the consumption when their income increases, but not as much as the income increases, this being called "fundamental psychological law". Also the slowing of investment has also psychological causes, taking into account the uncertainty of obtaining high profits and the existence of a high interest rates (for savings to be invested, it is necessary that the marginal efficiency of capital to be substantially higher than the rate interest, other ways investors preferring to deposit their cash at bank) and the preference of people to keep their available money as cash.

State intervention in the economy with the purpose to solve these imbalances is a priority oriented to hand full employment, because as Keynes said "the defects of the economic society in which we live are its inability to secure full use of people who work and arbitrary and inequitable distribution of wealth and income". The state action is achieved by discouraging savings and stimulating spending, particularly public spending, in order to increase effective demand, by using two economic and financial policies, namely monetary and budgetary policy.

In his book "The general theory of labor force, interest and money theory", he first dealt with the concept of occupation, then focusing on expectations, seen as one of the factors determining production and occupation. It is also highlighted "The 45 ° diagram". The paper aims to achieve a detailed analysis of issues related to full employment versus unemployment. Keynes wrote in an era marked by mass unemployment, by degradation and suffering at an incredible level. A reasonable person could have supported the failure of capitalism, concluding that only major institutional changes - perhaps nationalization of means of production - could restore economic health. Many economists, in fact, reached that conclusion: large numbers of British and American intellectuals, who did not have any special antipathy to markets and private ownership, become socialists during the years of economic depression, because they simply have not seen any other means of passing through the huge failures of capitalism.

However, Keynes argued that these failures had limited technical causes. "We are facing a technical problem" he wrote in 1930, at the time at which people sink into recession. And because Keynes saw the causes of mass unemployment as being technical and limited, he argued that the key issue could be also limited and technical: "the system will need a new alternator, but there is no need to be replaced the whole car". While many of his contemporaries wanted that the government to take over the whole economy, Keynes argued that far fewer intrusive policies could ensure adequate effective demand, allowing the market economy to function as before.

J.M. Keynes denounced liberal policy inspired by classical writings. He did not believe that the microeconomic imbalances can be compensated in order to obtain a general equilibrium. It is therefore necessary for the state to intervene in order to avoid the collapse of the market economy. This intervention can be made by cash, budget and structural measures and regulations. In case of unemployment, the objective is increasing the effective demand. Costs have a multiplier effect on national income. This effect is even greater as the marginal savings rate is lower. Savings must be discouraged by practicing lower interest rates, which have the added benefit to encourage the increasing of investments.

The economic world after J.M. Keynes, explores the main achievements of economist representing the neokeynesian doctrine and it studies what it means the new Keynesian economy. In the last one, we can easily find a wide variety of approaches. Basically, these approaches are so numerous and varied that one can say that the only point of convergence is the assumption of the market failure, due to stiffness or to the existence of imperfections in the economy. However, these separate lines of research can be classified and assigned to a certain typology depending on the type of imperfections envisaged and the type of market.

Politicians did not exactly respect the Keynesian concepts and views and have not realized the correlation between deficits from the recession periods with the surpluses of the boom. Fiscal policy has failed because of its institutional practice in democratic politics.

As a corollary of the above, this paper aims to capture, but without claiming to having elucidate all issues addressed, the main aspects of the emergence and evolution of Keynes doctrine.

CONCLUSIONS

Therefore, it can be concluded that the purposes of the keynesian “conversion” were quite large. They stretched from the purely academic controversy, on Say's law, to practice in the real world the condition that public expenditure should be limited to income taxes collected. Politicians did not exactly respect the Keynesian concepts and views and have not realized the correlation between deficits from the recession periods with the surpluses of the boom. Fiscal policy has failed because of its institutional practice in democratic politics. In the second part of this paper, there are also caught some of the criticisms that were made during time to the keynesian work.

Keynes wrote in an era marked by mass unemployment, by degradation and suffering at an incredible level. A reasonable person could have supported the failure of capitalism, concluding that only major institutional changes - perhaps nationalization of means of production - could restore economic health.

BIBLIOGRAPHY

1. **Ciulbea T.**, – *Economic doctrines*, Publisher Didactics and Pedagogy, Bucharest, 1995, ISBN 973-30-4583-7.
2. **Florescu Doina Geanina** - *John Maynard Keynes Input to the Development of Macroeconomy*, Publisher ASE, Bucharest, 2010, ISBN 978-606-505-349-6.
3. **Keynes, J.M.**, - *The General Theory of Employment, Interest and Money*, Publisher Publica, Bucharest, 2009, ISBN 978-973-1931-02-9.
4. **Keynes, J.M.**, - *The General Theory of Employment, Interest and Money*, Publisher Scientific, Bucharest, 1970.