

Economic theory of C. M. Keynes

1. Services of C. M. Keynes in the development of economic science

2. A short biography of C. M. Keynes

The founder of the most famous economic trend of the 20th century, English economist and statesman John Maynard Keynes was born in 1883. C. M. Keynes is one of the most influential economists in history, along with Adam Smith and Karl Marx. Not only his theory, but also his biography is unusually interesting, Keynes successfully graduated from the prestigious Eton College, and then Cambridge University, and matured in the environment of the upper classes of English society. This also made it possible for him to gain wealth and become rich from stock market operations. The father of John Maynard Keynes, the founder of modern macroeconomics, a prominent journalist and speaker, taught logic, philosophy and economics. His mother, who was the first female mayor of Cambridge, was known as a writer and public figure. Born into a middle-class family, Maynard was the eldest of three children.

He is famous not only for the book "The General Theory of Employment, Interest and Money", which created the "Keynesian revolution", but also for "Treatise on Probability" (1921), "Treatise on Monetary Reforms" (1923), "The End of Free Enterprise" (1926) and "Money treatise on" (1930), adviser to the British treasury, services at the Bretton Woods conference in 1944, the establishment of the International Monetary Fund, the Bank for Development and Reconstruction, and a leading role as a journalist and speaker in the cultural and intellectual life of that time.

The macroeconomic theory that accepts and justifies the necessity and importance of state regulation of the market economy is connected with the name of C. M. Keynes. Keynesianism emerged during the Great Depression (1929-1933). This theory revealed that the neoclassical movement was unable to answer the questions about the biggest crisis of the world capitalist system, its causes and the ways of stability of economic development. The theoretical propositions of Keynesianism are given in Keynes' main scientific work, "The General Theory of Employment, Interest, and Money" (1936).

Its basis is the idea of state intervention in the development of the capitalist economy in order to eliminate crisis events, achieve maximum employment, and increase the rate of growth of social production. Keynes noted that at a point well below the full employment level, aggregate supply and aggregate demand can be in equilibrium. Furthermore, he showed that unemployment could persist indefinitely unless someone increased **aggregate demand**. By "somebody," Keynes meant the government.

Aggregate demand is the sum of all goods and services that all participants of the economic system are willing to buy. Since it is difficult to measure the intentions and capabilities of customers, aggregate demand is estimated by total sales for a given period.

The variety of components of aggregate demand, as a rule, is grouped into several large categories:

- household expenses or consumption demand;*
- investment costs - the demand for debt sources of enterprises for development financing;*
- public procurement, i.e. the purchase of certain assets by the decision of the authorities;*
- Net export - the difference between the import and export of goods and services from the country;*

According to C. M. Keynes, the economy is often in a state of disequilibrium, the market is not able to fully solve its problems. The state should take on many issues related to the development of the economy. The Central Bank of the country should be active in the preparation and implementation of monetary policy. Forced unemployment is an objective necessity for the economy. Markets are related to each other. A change in any of them affects other markets connected with it.

Emergence of theory

Before the Great Depression, the most popular idea in the field of economics was that the economy was self-governing, or figuratively, that the "invisible hand" was guiding the economy. This theory advocated the idea that the economy has auto-regulators that are self-optimizing. Economists related to this theory noted that government intervention to eliminate economic stagnation in any period would create problems in the market, and opposed the idea of fiscal policy (government intervention in the economy through taxes and public spending).

Keynes was totally against it. Especially in the post-Great Depression economic opinion, he argued that during periods of economic downturn, market demand (purchasing, investment, government spending, and net exports) fell, leading to economic decline and unemployment. Keynes considers the active use of government spending, which is one of the elements that determine market demand and can be changed directly by the state, acceptable. In times of crisis, he defended the idea of eliminating unemployment by increasing government spending (infrastructure projects, etc.). According to Keynes, monetary policy based on interest rates can be effective only to a certain extent. But a more effective solution is the use of fiscal policy

Keynesian theory played a major role in eliminating the consequences of the Great Depression and in the economic development of the Western Bloc countries after the Second World War. However, it began to be abandoned in the 1970s. The reason for this was the spread of the idea that there is no need for the state to constantly intervene in the economy, as the economies are overdeveloped and far from the crisis. Although this view dominated economics throughout the 80s and 90s, the 2008 financial crisis vindicated the Keynesian argument once again. After the crisis, the Keynesian economic model began to guide the economy again.

The most valuable aspect of Keynes's economic thought is that he did not view the market economy as a self-regulating mechanism, but proved that it is surrounded by crisis-causing elements and proved the necessity of government management. This was the replacement of the idea of "free market" with the idea of "regulated market". Seeing the level of growth of the country's economy and the source of achieving maximum employment in state intervention, Keynes showed the state's stimulating capabilities in the formation of "effective demand". To stimulate demand, he suggested increasing public spending, investment and government orders, reducing interest rates and redistributing income in favor of the least well-off and social groups. He opposed any methods of reducing wages to eliminate unemployment. While maintaining a certain level of unemployment, he determined the directions for the implementation of full employment, and in this regard, he recommended the use of the working mechanism of the program for the development of long-term loans and the aid payment program.