

## Keynesian Economics

- Keynesian economics is an economic theory based on the ideas of an English Economist, John Maynard Keynes in response to the Great Depression of the 1930s.
- It is based on the belief that aggregate demand is the engine that powers the economy.
- When the Great Depression hit, people's natural reaction was to hoard their money. Under Keynes' theory, this stopped the circular flow of money, keeping the economy at a standstill.
- The rise of Keynesianism marked the end of laissez-faire economics

## Ways Keynesian thought is generally accepted today...\_

 Keynes inspired President Obama's plan to save the U.S. economy with a massive round of government spending.

 Politicians took the Keynesian message that government spending can be good and ran with it. They paid for the war on poverty and the war in Vietnam. They sent a man to the moon. All the while, they piled up the federal budget deficit, convinced that Keynes gave them a free pass.

• In the 1970s, the U.S. had high unemployment and the Keynesian solution stopped working. The national government spend and spent, but unemployment only got worse. Then came inflation, something Keynesians had no answer for.





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- With the stimulus package Keynesians ideas came back and economists across the spectrum called for government spending.
- The parallels with today are uncanny. Alan Greenspan expanded the money supply after the dot-com bust, dropped interest rates to 1% encouraged a credit-driven boom, and created a gigantic housing bubble.
- By the time the government realized they had created a bubble, it was too late. The government response to the 2008 financial collapse has been to expand the money supply, reduce interest rates to 0%, borrow and spend \$850 billion on projects, encourage spending by consumers on cars and appliances, and artificially prop up housing through tax credits and antiforeclosure programs.

- As of 2009, the national debt was driven higher by 2.7 trillion within the last 18 months because of theses actions.
- The government is prolonging the agony by not allowing the real economy to bottom and begin a sound recovery based on savings, investment, and sustainable fiscal policies.
- In fact, the more the government interferes with free market, the worse off we are all going to be as evidenced by the events of the past 90 years.