7 Men Who Rule the World From the Grave

A Book Study based on the book by Dave Breese

#6: John Maynard Keynes

A Brief Review

- Charles Darwin (1809-1882) changed the way we look at origins
- Karl Marx (1818-1883) changed the way we look at value and necessity
- Julius Wellhausen (1844-1918) changed the way we look at the Scriptures
- Sigmund Freud (1856-1939) changed the way we look at ourselves
- John Dewey (1859-1952) changed the way we look at truth

John Maynard Keynes and the new look at economics

- A little economic history:
  - Pre-Classical Economics: *the measure of wealth was the King's treasury.*
  - Classical Economics: *the measure of wealth is the annual income of the citizens.*
  - Keynesian economics: *the measure of wealth is the total amount spent in an economy.*
- A little practical history:
  - The first decade of 1900 was a period of euphoria, economically and socially. It was, even then, called the beginning of the *Fabulous Century*.
    - Senator Albert Beveridge (Indiana) – "God has marked the American people as His chosen nation to finally lead in the regeneration of the world. This is the divine mission of America, and it holds for us all the profit, all the glory, all the happiness possible to man. We are the trustees of the world's progress, guardians of its righteous peace." (p. 183).
  - By the 1910s, the labor movement (sparked by Marx) had strongly affected the American economic and social outlook.
    - In 1916 there were 2,093 strikes and lock-outs in the first six months.
    - There was a very strong (1 million plus) movement to overthrow capitalism and adopt socialism.
  - WWI (1914-1918) brought a change of thinking to many of the movements we have discussed:
    - **Social Darwinism** was sobered: *maybe we haven't evolved as far as we thought?*
    - **Marxists** were strengthened: capitalist societies were breaking down, and there was a fortuitous fall of Russia to the Communists.
    - **Religious Liberals** believed that we had made our *last great mistake* and now we could build a great society.
  - The 1920s brought unprecedented spending and investing, to the point of euphoria.
  - October 28, 1929 brought it all to a halt, and nobody had any answers…except a man named John Maynard Keynes (1883-1946).
- Keynes becomes famous
  - He had previously become known as a meticulous mathematical thinker, applying his math to economics.
  - At the 1919 Peace Conference, he walked out of negotiations because he insisted that Germany would never be able to repay what was being demanded, believing it was

    manifestly unworkable. By the 1930s this became apparent to all, and Keynes became famous.
  - Keynes understood international currency so well that he traded himself into multi-millionaire status, adding to his reputation.

Keynesian Economic Theory

- Three simple foundations to Keynes' theory:
  - First, an economy in depression could stay there.
  - Second, prosperity depended on investment.
  - Third, investment is not assured.
- How this differed from prevailing economic thought:
  - Classical economics was *laisse fair*, believing the market would fix itself.
    - If employment dropped (unemployment went up) then prices would drop until goods sold at a fast-enough pace that employers would hire.
  - Keynes said what everyone was experiencing in the 1930s: *the market isn't fixing itself.*
    - The labor union movement of Marx changed the dynamic. Rather than falling individual wages, it was "fixed wage" or "everyone is unemployed."
    - The lost wages resulted in lower prices resulted in lower profits resulted in lower confidence resulted in lower investment…
- The Keynesian solution: *if prosperity depends on investment, then use the Government to invest in the economy*.

When Theory Meets Practice

- There is validity to the idea that government deficit spending can stimulate the economy, which then increases employment (and thus wages), which then results in more spending by consumers and businesses.
- The problem is the *method of deficit spending*.
- Beginning with FDRs *New Deal*, everything became the purview of government.
  - "The central tenet of this school of thought [Keynesianism] is that government intervention can stabilize the economy" (http://www.imf.org/external/pubs/ft/fandd/2014/09/basics.htm)
  - Social programs expanded rapidly.
  - International monetary planning grew to threaten national sovereignty.
- Can the government have *deficit spending* and not increase *government intrusion?*
  - Yes! The easiest way is to lower taxes and keep spending levels fixed.
  - Americans have created a system of *expanding the federal government* rather than *enriching the American people*.
  - Our focus should be on *how* the government spends, not *how much* the government spends.

Next Week: Soren Kierkegard