

ECONOMIC RAMBLE OF JOHN MAYNARD KEYNES

Dr.D.Rathi

Assistant Professor of Economics,
St.Mary's College, Thoothukudi, Tamil Nadu, India

Abstract:

A country sets full employment at a 5% unemployment rate

Economics have analysed the theories of economics based on logical reasoning. Many theories have been proved to be useful in as much as they address the day to day problems of mankind. Economics is a body of systematized knowledge. Ragnar Frisch was the first to use the terms “micro” and “macro” in economics in 1933. The history of economic thought deals with different thinkers in the subject that became political economy and economics, from the ancient world to the present day in the 21st century. The Keynesian economics is a clear departure from the classical economic ideas. The paper analyses the life of economists John Maynard Keynes. Among the modern Economists, John Maynard Keynes who has made the greatest contribution to the development of the economic theories of today is the pioneer. The present study shows that the significant roles of his selected theories and revalidate these theories with Indian economic situations. This article is particularly concentrated on the theories of Employment, Interest and Multiplier. In this study conclude that John Maynard Keynes theory has made certain definite advances in the advanced economic field. John Maynard theory is only applicable for developed nations and not for underdeveloped and developing countries.

Index Terms: Economics, John Maynard Keynes, Employment, Interest and Multiplier.

One of the greatest and the most contentious British Economists of the twentieth century was John Maynard Keynes. He was born in June 5th 1883, son of Florence Ada Keynes a social reformer and John Neville Keynes, the noted British economist, Professor and Registrar of Cambridge University. John Maynard was the first born, and was followed by two more children – Margaret Neville Keynes in 1885 and Geoffrey Keynes in 1887. Geoffrey became a surgeon and Margaret married the Nobel Prize – winning physiologist Archibald Hill. In January 1889 at the age of Five and a half, John Maynard started at the kindergarden of the Perse School for Girls, but his health was poor leading to several long absences. He was tutored at home by a governess Beatrice Mackintosh, and his mother. In 1894, John Maynard was top of his class and excelling at Mathematics. In 1897, John Maynard won a scholarship to Eton College, where he displayed talent in a wide range of subjects, particularly mathematics, classics and history. He was the winner of many prizes and scholarships. In 1902, John Maynard left Eton for King's College, Cambridge, after receiving a scholarship for this also to read mathematics. Before leaving Cambridge, John Maynard became the President of the Cambridge Union Society and Cambridge University Liberal Club. In May 1904, he received a first class BA in Mathematics. In October 1906, John Maynard's Civil Service career began as a clerk in the India Office. Alfred Marshall was the teacher and motivator of John Maynard to talk about Economics. 1909 John Maynard accepted a lectureship in economics funded personally by Alfred Marshall. After this incident John Maynard was the great lover of Economics in his life. His earnings rose further as he began to take on pupils for private tuition.

In 1911, he succeeded Edgeworth as editor of the journal “Economica” which position he occupied just before his death. At the same time he became Secretary of the Royal Economic Society. In 1915, he entered the British Treasury and worked there till the end of World War I. The term “Keynesian Revolution” is often applied to describe the economic ideas of Keynes and it is also called as “New Economics”. Among the modern Economists, John Maynard Keynes who has made the greatest contribution to the development of the economic theories of today is the pioneer.

John Maynard thought was also influenced by the writings of Lauderdale, Sismondi and Malthus. John Maynard Keynes was a great lover of arts. He was the trustee of the National Gallery and Chairman of the Council for the Encouragement of Music and the Arts. Like Adam Smith's “Wealth of Nations” in 18th century; Karl Marx “Capital” in the 19th century and after John Maynard was a great lover of books and a book collector as well. His publications include: Indian Currency and Finance(1913), The Economic Consequences of the Peace(1919), A Treatise on Probability(1921), A Revision of the Treaty(1922), A Tract of Monetary Reform (1923), A short view of Russia(1925), The Economic Consequences of Mr.Churchill (1925), The end of Laissez-faire (1926), A Treatise on Money (Two Volumes) (1930), Essays in Persuasion(1931), Essays in Biography(1933), The General Theory of Employment, Interest and Money (1936); and How to pay for the War (1940). Besides ten books and five booklets, he wrote about 300 articles and about 50 reviews on official and non-official reports. He was one of the most influential economists of the 20th century and the founder of modern macro economic theory. Now, I would discuss about some important theories of John Maynard Keynes.

IMPORTANT CONTRIBUTIONS: John Maynard follows Macro Economic approach which is based on broad sense. His idea differs from the classical economists. He encouraged government intervention and he stated that under employment equilibrium and imperfect market conditions. Keynesians focus based on short –term problems and believes capitalism.

THEORY OF EMPLOYMENT:

John Maynard Wrote a book “The General Theory of Employment, Interest and Money” in 1936. Keynes was the first to develop a systematic theory of employment. Keynes theory of employment is called the effective demand theory of

employment. It determines the level of employment in an economy. Effective demand in other words is that aggregate demand of the community which is equal to aggregate supply. Aggregate demand comprised of consumption demand and investment demand. Consumption demand is the function of income and it remains more or less stable in the short run. But, investment demand changes widely. Therefore this theory states that effective demand should be increased in order to increase income and employment. It can be achieved only through an increase in investment. India is the world's seventh-largest economy by nominal GDP and the third-largest by purchasing power parity (PPP). Arthur Cecil Pigou defined full employment as one when "everybody who at the ruling rate of wages wishes to be employed is in fact employed" In ordinary language, if a person is willing to work and physically fit, and still does not get a job to earn his livelihood, such a condition is called unemployment.

According to John Maynard Keynes, the three main reasons of spreading of unemployment are: lack of effective demand, deficiency of outlay on consumption and deficiency of investment. India's unemployment is built with the base of these causes: rapid increase in population, uncertainty of agriculture, improper attitude of the educated unemployed person (voluntary unemployment), wide gap between wages and production, defective planning and irrational mechanization. Unemployment Rate in India increased to 3.52 percent in 2017 from 3.51 percent in 2016. Unemployment Rate in India averaged 4.11 percent from 1983 until 2017, reaching an all time high of 8.30 percent in 1983 and a record low of 3.41 percent in 2014. More than eight million jobs are required every year for India to keep its employment rate constant as its working age population is increasing by 1.3 million every month.

This can be achieved by adopting an expansionary fiscal policy, that means raising government expenditure or reducing taxes. It can accelerate economic activity and thus ensure high levels of employment. If there is any inflation arising exceeding the aggregate supply of the economy. Government has to adopt a fiscal policy. It raises taxes so that people are left with less spending on already produced goods and services. It will reduce the pressure on prices.

THE THEORY OF INTEREST:

John Maynard defines the liquidity preference as a desire to hold money in liquid or cash which is natural or psychological. He gave three reasons for holding cash, they are transactional, Precautionary and Speculative motive. Transaction Motive: People want to keep cash for their day-to-day purchases. Precautionary Motive: People need ready cash for meeting unforeseen contingencies, such as, illness, accidents, etc. Speculative Motive" the object of securing profit from knowing better than the market what the future will bring forth". The cost of holding cash will have a very limited influence on the first two motives. The notion of holding liquid cash for speculative purpose is a new and typical idea of John Maynard. His analysis of the term 'Liquidity preference' is the context of the determination of the rate of interest. Of the three motives, speculative motive is more important in determining the rate of interest. John Maynard was of the view that the rate of interest was determined by liquidity preference on the one hand and the supply of money on the other. According to John Maynard, another one determinant of the rate of interest is the supply of money. If the money supply is lower, that will lead to the investment and the level of employment. On the contrary in underdeveloped and developed countries, an increase in the supply of money leads to the rise in prices. Thus the rate of interest in underdeveloped countries is not influenced so much by the demand for and the supply of money, traditions, taste and preference of the customers and institutional factors.

THE CONCEPT OF INVESTMENT MULTIPLIER:

The concept of multiplier was first introduced by R.F. Kahn in the early 1930's. He used this concept to trace the effect of an increase in investment on employment. So his multiplier is called as 'Employment Multiplier'. But Keynes later further refined it. Keynes used this concept to explain the effect of a change in investment on income. So, the Keynesian multiplier is known as investment or income multiplier. The multiplier concept explains the cumulative effect of changes in investments on income. It is the ratio of change in income to a change in investment. The multiplier, in short, is a numerical co-efficient, indicating how great an increase in income results from each increase in investment. What is the reason behind an investment getting multiplied by the time it is realised as income finally. This multiplier effect depends mainly on marginal propensity to consume. In the Keynesian sense, income, if it is not spent on consumption, but it spends on paying off debts, imports, liquidity preference, taxation and various purposes is leakage in the cumulative income stream. Leakages weaken the operation of multiplier. John Maynard Keynes stopped his economic ramble in this world on April 21, 1946.

CONCLUSION:

John Maynard Keynes theory has made certain definite advances in the advanced economic field. In spite of its importance, John Maynard theory is criticized and many failures have been pointed out by critics. The significant departure from classical thinking was made by Keynes in his employment theory. John Maynard theory is only applicable for developed nations and not for underdeveloped and developing countries. Because John Maynard Keynes did not deal with the problem of cyclical unemployment. But the underdeveloped and developing countries face the problem of chronic and disguised unemployment. Some countries suffer due to the deficiency in aggregate supply and demand. At the same time, measurement of aggregates becomes very difficult. His assumptions of employment theory are only applicable to the short period but the employment is aimed at long period growth. India's per capita income grew by 9.7 percent to Rs.1,03,219 in 2016-17 from Rs.94,130 a year ago. National Sample Survey Office reported 39% of rural population possesses only 5% of all the rural assets while, on the other hand, 8% top households possess 46% of total rural assets. So, lot of disparities between the Indian population income and it is creating the problem of unbalanced economic development. India has not yet achieved the goal of balanced economic development. In LDCs the major problem is not unemployment and inflation but its stagflation.

John Maynard motives for liquidity preference, the transactions and precautionary motives are income elastic and they do not influence the rate of interest. In underdeveloped and developing countries, the liquidity preference for first two motives is high and for the speculative motive low. Therefore, liquidity preference fails in India. From this theory we conclude, in the present Indian economic situation Keynesian multiplier did not work. India is predominantly agricultural economies and income elasticity of demand for food –grains was very high in these economies. When increase in investment leads to the rise in money incomes of the people, a large part is spent on food-grains. But the supply of agricultural products is inelastic because of uncertain natural factors, lack of technology, fertilizers, high quality seeds etc. The nature of Indian economies, there was acute scarcity of raw materials, other intermediate goods such as steel, cement and financial capital which put great obstacles for the working of multiplier in real terms. Under these conditions, John Maynard theory cannot offer solutions to backward economies.

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