Index

abstraction level
  of macroeconomic analysis 207
advertising
  and the consumer 186–7
  tool of competition 187
advice to Japanese 1998
  from the Economist 130–31
“age-old poisons” 133
Aggregate Demand (AD) 79, 83, 136, 140, 220
  awkwardness 154–5
  central role in theory of recession 125–6
  consumption, investment, government spending, net exports 2
  “aggregate” demand and supply  big spender, Keynesian 85
  interconnectedness 82
  misplaced construction 81–2
aggregate demand equation 156
aggregate demand plunge 67
aggregate demand relation 155
aggregate demand restoration
  deficit financing 221
aggregate demand stimulation
  for restoration of aggregate output to full employment level 214
aggregate economic variables
  relationships 202
aggregate entrepreneurial problem 36–9
aggregate investment
  supposed arithmetic value of zero 207
  “aggregate” spending, need to increase 87
Aggregate Supply (AS) 79, 125, 154–5, 220
aggregate supply concept 154
aggregates, focus on 108
aggregates of GDP 119
aggregation 151, 239–42
aggregation problem 246
  macroeconomics 239
  microeconomics 239
allocation of capital 111
alternative to Keynesianism 156–60
American budget deficits 132
American Economic Association (AEA), 1951 11
American economy
  sinking economic activity 146
American heartland
  into “rustbelt” 199
American psyche
  in financial matters 95
annual Summary of Payments Statistics 2014 48
anti-capitalist themes 218
anticipated market demand 33
anti-Keynesian
  Free Market Economics: An Introduction for the General Reader 2
anti-market policies
  damaging in practice 133
Argentine economy, 135
asset portfolios 44
asset price declines, severe, 1990 63
asset price movements 74
asset prices, high 54
asset prices, leakages 53–5
asset price turbulence 68
asset price volatility 55
asset replacement 199
asset transactions
  between sectors 52
assets, buying and selling 50–51
assumption of unchanging
  composition of aggregates 206
“austerity” 140
austerity episodes 204
“austerity” promise
from George Osborne 209
Australia
cut in public spending, wage cuts 127
“Premiers’ Plan” 127
“Austrian” analysis of inflationary processes 88–9
Austrian Business Cycle Theory (ABCT) 19, 208
Austrian capital theory 115, 120
Austrian conception of capital 108
value of specific goods 110
Austrian conception of the market 117
Austrian distortions
of production structure 208
Austrian economists 13
Austrian interest rate theory 14–19
Austrian laissez-faire prescription 221
Austrian macroeconomists, new 13–14
Austrian perspective
capital in specific goods with multiple uses 107
Austrian theory of boom and bust 99
Austrian theory of capital 112
Austrian view of capital, by Keynes 109–10
automobile production 198
qualities and quantities 188
autonomous expenditure 44
Average Price Level 79
balanced budgets
“general” theory of economy 219
balanced markets
assuring full employment 84–5
bank credits 244
Bank for International Settlements 63
Bank of England independence, 1997 62
bank rate in UK, house prices high 208
bankruptcies 194
barter economy 16
big government
justification 218
big government over laissez faire
Keynesian model 219
Blue Book, UK presentation of national accounts 52
bond market 168–9
bond markets
Operation Twist 170
bond prices 15, 19
books on Keynes
after 2007–09 economic crisis 245
“boom and bust” warning 56
boom–bust episode 100
root cause identification 98
boom–bust sequence
misdirection of resources 94
British Classical Economists
Adam Smith, David Ricardo 183
broad money growth, 1985 60
broad money growth drop 1990 and 1991 60
budget balancing policy 126
budgets deficits 204
building permits 231
business and business investment 134
business as heart of the economy 232
business confidence 246
business cycles
dot.com bubble, 2000 96
housing bubble, 2005 96
business firms 192
business investment
dependence on current and future consumer demand 228
business reluctance to spend 152
business spending 228
business-to-business (B2B) spending 225–6
“business transactions” 53
buyers and sellers 190
C + I + G 2, 137, 140, 145, 236
Cairnes, John E., “classical economist” 1874
on Supply and Demand and aggregate demand 82–3
Callaghan, James, 1976
on spending way out of recession 145
capital, accumulated wealth, earning profit or interest 192
capital accumulation 189
capital, aggregative view
  in Keynes 109
capital and investment problems
  volumes of each 111
capital and labor, idle 120
capital and recession 191–2
capital, Austrian view 119
capital creation
  on credit expansion 193
capital decumulation 197
capital-entrepreneur arbitrage 17
capital goods 107, 188
  investment 231
    driving the economy 232
loss 194, 196
of economic system 195
productivity or value 109
relative scarcity 111
resources 120
scarcity 198
stock 50
use 114
capitalism, contradictions of 219
capitalist development, 150 years
  124–5
capitalist-entrepreneurs 16–17
capital, saving and employment 183
capital, views of 107
Carew, Edna
  The Language of Money (1996) 127
cash balance 15
cash hoarding 190
cash holdings 192, 194
catastrophe for economic theory 141
central bank “braking”
  rather than “accommodating” 100
central bank role
  in popular Keynesianism 152
Chamberlain, Neville, British
  Chancellor of the Exchequer, 1933
  on balancing the budget 126
cash changes in level of output 94
changes in net worth
  1998–2013, 12 percent of GDP in
    UK 65
  1998–2013, 21 per cent of GDP in
    USA 65
  larger than fiscal policy 65
Chicago School Monetarists 13

childbirth
  expense to parents 186
child labor 184
Chinese recycling dollars
  in American money market 132
chronic debt financing
  policy prescriptions 218
chronic secular stagnation 96
Churchill, Winston
  decision, country back on gold
    standard 95
circular flow 46
  “circular flow” of spending 152
classical economics
  Keynesian undermining 133
classical economic theory 125
classical economists
  broad principles 213
  “classical medicine” 133
  “classical theory” 124
classical theory of recession 126
Climate Change Levy
  losses for investors 210
Coalition Government in UK, June
  2010
  tax raising and cutting spending 204
coalminers’ union dispute
  for pay rise 58
commodity reserve systems 215
co-movements 97
competing currencies 215
competition with other goods or
  services 30
components of expenditure
  consumption and investment 46
conceptual legitimacy of Keynesian
  income-expenditure analysis 45
confidence
  importance of consumer desires
    209–10
consumable output 93
consumer borrowing 50
consumer demand
  inaccurate anticipation 37
consumer demand change
  with passage of time 29
consumer desire
  consumed by presence of wealth 185
  production by absence of wealth 185
consumer desire unused
consumer goods and producer goods
1 consumer goods, higher prices
consumer goods industries
consumer inflation
1 per cent over 2 per cent target
consumer preferences
consumer role
consumers’ expenditure (in real terms)
consumer society justification
consumer spending
not driving the economy
not leading indicator
consumer spending drives the economy
(anti-saving mentality)
consumer spending stimulation
in some lines of investment
consumer wants
consumption
effect of nation’s prosperity
entrepreneurial profits
leading to production
uses up economic value
consumption and investment
relationship between
consumption expansion
twentieth century
consumption expenditures
in United States
consumption, financing of
consumption, high level
key to prosperity in US
consumption–investment proportion
decrease
consumption of the government
support for economic system
consumption over saving
Keynesian economics
consumptionism
perversion of values
consumerist
and advertising
consumptionist belief
people eager to accept reward
purposeless passion for work
consumerist’s values
absence of wealth
consumerists and productionists
context specific outcomes
contra-cyclical adjustments to
government spending
control factors, specification of
conventional economics
fundamental economic problem,
scarcity
price adjustment eliminates
surpluses and shortages
savings promotes capital formation
“conventional wisdom”
Keynesian economics
“coordination” (Friedrich Hayek)
coordination and balance
entrepreneurial profits
leading to production
uses up economic value
consumption and investment
relationship between
consumption expansion
twentieth century
consumption expenditures
in United States
consumption, financing of
consumption, high level
key to prosperity in US
consumption–investment proportion
decrease
consumption of the government
support for economic system
consumption over saving
Keynesian economics
consumptionism
perversion of values
consumerist
and advertising
cyclical movements in asset prices equities and real estate 54
daily fluctuation of prices in financial markets 207
damage of stimulus expenditure 249
dangers of Keynesianism economics 123
“dark age” of macro-analysis 79–80
data on household net worth in the USA and UK 74–6
debt over equity
  Keynesian economics 218–19
debts, rising levels 140
decline in real output 213
decrating price levels 78
defects of macroeconomic method 206
deficit financing
  Keynes’s way out of Depression 221
deficit spending, fiscal stimulus over balanced budgets
  Keynesian model 219
deficits, dangers of 140
deficits over surpluses
  Keynesian economics 218
definition of a job 156
demand and supply intersections
  comparison with pair of scissors 170
demand comes from supply 142–3
demand curve 170
demand deficiency
  as cause of recession 125
  “Demand for commodities is not demand for labour” (Mill) 144
demand insufficiency 38
demand, level versus structure 131–2
demand over supply, importance of
  Keynesian economics 218
demand overestimation 37
demand rationing 242
demand stimulation 35
demographic problem of Japan
  major fiscal implications 130
dependence
  on income plus allowance 50
  depreciation of housing stock 52
  depressions 20
  rise in loan rate 21
  depressions and credit expansion 193–4
desire, only
to buy and consume, not produce and sell 190
to produce and sell, not buy and consume 190
desires, as creation of work 187
devastation of World War I 95
development of common law self-organizing process 212
discretionary financial regulation 2010 Dodd–Frank Act 210
  discretionary regulation 210
disequilibrium 238–9
distortions, Austrian 208
domestic products, demand stimulation for 173
Dow, Christopher
  chief economist at Bank of England 46
  “dual income hypothesis” 238
dynamic stochastic general equilibrium (DSGE) 203
early-stage capital formation 93
easy money 221
  policy prescriptions 218
  easy money over inflexible gold standard
  Keynesian model 219
easy-money policy 222
econometric models 46
economic activity increase 5
economic benefit for a producer 190
economic consequences, dismal 138
economic coordination and growth 117
economic depressions 193
economic downturns 193, 241
economic forecasting in National Institute downgrading 62
economic growth
  from micro-economic coordination 119
economic growth in US and UK
  unusually low since financial crisis 210
economic journalism 152
economic life, rationality 191
What’s wrong with Keynesian economic theory?

economic policy during Great Depression
full-scale classical approach 126
economic policy, false premise 4
economic policy, principles of 213–14
economic prosperity
a policy of inflation 190
economic recovery, requirements 194–5
greater saving, fresh capital 195
more saving, capital and credit 195
economic theory 4, 78, 183
economic theory in practice 145–6
economics, Keynesian
ambiguity of 151–6
economic world
“non-Euclidean” 191
Economica article, 1933, period analysis 47
Economist, The
on Japan in need of fiscal stimulus 131
economy as a self-organizing system 210–12
economy, deeply subdued 135
economy downturn after 1974, 1980 60
economy malfunctioning 94
economy, taxed into prosperity 165
economy-wide aggregates 90
economy-wide unemployment 92
education, infrastructure 36–7
effective demand 239, 248
backed by money 236–7
consumption expenditure 237
Keynes’s definition 236
supply-side concept 236
theoretical construct, no evident policy role 237
“effective demand” notion, 30, 41
The General Theory 69
eligibility requirements 176
empirical macroeconomics, challenge 161
employment 2
Employment Act of 1946
US Congress 102
employment restoration 247
employment, views of 184
endemic problem of unemployment 240
entrepreneur
as sole producer in market setting 28
entrepreneur in production, uncertainty 30
entrepreneurial failure 30–31, 34, 42
entrepreneurial function 27
entrepreneurial problem 26–30
entrepreneurship
and a general glut 39–41
exogenous change 27–8
failed 42
ture “driving force” of market process 31–2
equilibrium analysis 202
equilibrium levels
national income and national wealth 69
equilibrium models 211
equilibrium prices 170
demand and supply curves 171
equilibrium theory
Keynesian Revolution, main tenets 202–3
equilibrium values 46
equity bull market
US 1928 and 1929 53
equity prices high 208
European Exchange Rate Mechanism 60
Eurozone authorities 44–5
ex ante and ex post equilibria 115–16
excess demand 83
excess of “aggregate supply” over “aggregate demand” 83
excess supply 83
exchange rate 95
exchange rates, falling
Italy joining euro 210
exogenous change 28
exogenous shocks
earthquakes, tsunamis 28
“expansionary fiscal contraction” 45
expansionary fiscal policy 20–21
expansionary monetary policy 20–21
expenditure containment 126
expenditure cutting
slashing public sector wages, 1931 127
expenditure decisions 44
expenditure on public works 244
extra-market forces
government spending and money creation 97

Failure of the New Economics, The (1959) 2
failure of stimulus programs 106, 110
fall in demand
    answer, increase in demand 137
falling production rates, double-digit 78
faster output growth
    by deliberate demand stimulus 57
federal purchases, 2007 to 2009 160
Federal Reserve 221
Federal Reserve policy 93
Federal Reserve System 168, 169
Ferguson, Adam, eighteenth-century philosopher 212
“final effective aggregate demand” 224
“finance” 49
financial circulation 49–51, 65, 69
    and circular flow 51
financial circulation prices
    leakages 53–5
financial crisis 159
    cause 203
    no non-Keynesians 106
    United States 2010 Dodd–Frank Act 210
financial crisis of 2007–2008 101, 156
direct intervention in markets by
    monetary authorities, treasuries, regulators 210
prolonged recession 203
financial securities, strong 54
fiscal and monetary policymaking
    loss of credibility 201
fiscal austerity 45
fiscal contraction
    in deep recession 204
expansionary not contractionary 204
raising tax revenues, cutting expenditures 204
rapid in US after Second World War 162
fiscal expansion 204
arguments for substantial need in Japan 130
fiscal expansionism
    Alberto Alesina, “Bocconi boys” 45
fiscal expansions
    International Monetary Fund, no support 130
fiscal policy
    deficit spending and taxes 223
“fiscal policy” of government 196
fiscal policy tightening 67
fiscal reflation 68
fiscal “spending” multiplier
    strength questioned 222
fiscal stimulus 44
    Bush Presidency 204
    flat tax, low rate, broad-based 180
fluctuations in employment 156
fluctuations in output 156
forecast growth rate of aggregate demand
    very high 58
forecasting model of NIESR 56
four-stage model of economy
    macroeconomics 226
fraud prevention companies 48
free-market economy
    inherently unstable 219
free market solutions
    Keynes, advocating 133
free markets, power of 180
free trade 180
“general” theory of economy 219
freedom of wage rates 195
Friedman, Milton
    misunderstanding of the Austrians 99–100
“The Great Contraction” 220, 223
Frisch, Ragnar, Norwegian economist
    “macroeconomics” term (1933) 240
“full employment” 85, 119, 125, 156
full employment, implied assumption 240
fundamental flaws
    in macroeconomic analysis 206–7
future demand 29
future market conditions
  anticipation, supply and demand 32–3
future money 15

G20 Washington summit 44
Galbraith, John Kenneth, Harvard economist 221
GDP (gross domestic product) 139, 160–61
growth in 1972 57
misleading 224–5
a measure of the economy 225
not a measure of total economic activity 225
single output aggregate production function 163
the “use” economy 227

General Financial Contraction
  fall of accumulated savings 193
general glut 40, 41
General Glut debate 143–4
“general” theory of economy 219

General Theory of Employment, Interest and Money, The (1936)
  11, 49, 78–9, 92, 96–7, 107, 110, 124, 134–5, 202
Preface 101–3
  see also Keynes, John Maynard

German labour market 214
Global Financial Crisis (GFC) 1–3, 7, 9, 14, 135, 140
glut, excess supply 143
gold standard
  “general” theory of economy 219
goods production
  millions of tasks 156
government budget deficits
  destructive 199
government deficit spending 177
government expenditure, increased 240
government-financed consumption
  beneficial appearance 196
government income
  taxation 126
government indebtedness 245
government-induced credit expansion 20
government level of expenditure
  increase in 134
government price fixing 248
government role 137–8
government spending 135, 147
government spending boost
  simplistic version of Keynes’s message 237
  “Government spending is taxation” 176
government spending on employment targeting of 159
government spending rise, US 174
government spending, speedy 135
government stimulus
  expenditure 244
  measures 138–9
  spending, important policy instrument of Keynesianism 175
government-supported union 21
government transfer payments 178–9
Great Depression 99, 126–8, 136, 165, 167, 220
  in the United States 8
  mid-1930s 78
  severe unemployment 221
  share market crash, 1929 124
worst eras in US economy 179
worst period in American economy 175
Great Inflation, 1970s and 1980s
  deficit spending 8
Great Moderation 62
Great Recession 62, 165
  second worst period in American economy 176
worst eras in US economy 179
Great Recession, 1980s 166
Great Recession in late 2008 44
Great Recession of 2008 and 2009
  global impact 62–3
greenhouse gases
  level reduction 132
gross business spending (B2B) 227–8
gross domestic product (GDP) 220
Gross Output (GO) 232
  a measure of “make” economy 227
  from input–output tables of Leontief 227
quarterly data 227
spending measures 226–30
Hayek, Friedrich A., Austrian economist 13, 119, 144, 226–7
business cycle theory 208
Federal Reserve policy 93, 98,
*The Pure Theory of Capital* (1941) 111
Hazlitt, Henry 6
*The Failure of the New Economics* (1959) 2
Heath, Edward, PM
Conservative Government 57
Hicks–Hansen IS–LM analysis 235
high birth rate
more consumer desire 185
high inflation 154
low growth 129
higher prices on aggregate demand
effect 155
higher rate of inflation
increase in aggregate demand 155
hire purchase 50
hoarding 153, 191
Hollande, François, French President quoting Say’s Law 146
homebuilding
integral facets of total economy 168
homeownership
integral facets of total economy 168
household net worth 45, 65
houses
qualities and quantities 188
housing market 171
US economy 168
housing sector meltdown in US 131–2
human psychology
boom driver 96
Hume, David, eighteenth-century philosopher 212
Hutt, William 2–3, 6, 7
“hydraulic Keynesianism” 203
idle resources 92
IMF, see International Monetary Fund
implications of self-organization 212–13
inappropriate formalism 206
income 46
income deposits 49
income effects in an economy 178
income-expenditure analysis 44, 45
approach of Keynes, 1940 articles 69
circular flow 65, 67, 74
model 45–7, 115
Keynesian 113
*New Palgrave* 54
increasing demand for entrepreneur’s products 35
incumbent businesses 157
“industrial circulation” 49
and circular flow 50
industrial output 231
annual rate of growth of output 211
“industry” 49
inflation, expected and unexpected 155
inflation check
control of prices and wages 57
inflation rate changes
distortions in real wage rate 154
inflationary “cure”
more market problems 89–90
inflationary monetary expansion 89
inflationary process 88–9
input–output analysis 159
insufficiency of demand
for product 30–31
interest rate 15, 16, 18–19, 154
adjustments 20, 171
as determinant of investment 154
high, 1920s 95
lower 112
manage aggregate demand 203
mechanism 114
microeconomics of the interest rate,
Austrian approach 116–17
policies 94
policy-infected 98
rise 21
spread 231
theory, Austrian 14–19
International Monetary Fund (IMF) 45, 63, 75
advice to Japanese, 1998 130
“fiscal policy” figures 65
international trade 133
interpretations, conflicting, of Keynes’s message 103
intertemporal coordination 114
structure of production 112–17
What’s wrong with Keynesian economic theory?

intertemporal discoordination and the business cycle 117–18
“investment”
commitment of funds to a financial asset 51–2
investment
uses up economic value 248
investment, active 47
investment and savings 115
relationship between 108
investment, employment, consumption
downward co-movements 96
investment goods 113–14
investment in securities 14
“investment opportunity”
for capital goods 187
investment–savings equilibrium 115
Ireland
2014, fast rate of economic growth 205
draconian fiscal tightening to 2013 205
iron ore scarcity 198
IS–LM model
balance between saving and investment 154
IS curve 115
interest rate movements 100
Japan, 1990s
large spending packages, deep recession 129
Japanese downturn 9
Japanese economic stimulus, 1990s 9
Japanese Recovery Program 129–31
Japanese slump, 1990s 13
jigsaw puzzle
capital goods as puzzle pieces 117
meaningful pattern and picture 119
no final picture 117–19
pieces used in right way 119
job creation 157
job creation, meaningful 159
job loss, drop in demand 163
Job Openings and Labor Turnover Survey (JOLTS) US 159
jobs create spending 156
JOLTS data 162
Kates, Steven
Free Market Economics: An Introduction for the General Reader (2011) 2
Kennedy, John F., President of United States
tax cuts to stimulate growth 129
key concepts in Keynesian textbooks 44
Keynes, John Maynard
economist most influential and revolutionary of twentieth century, 219
The General Theory of Employment, Interest and Money (1936) 11,
49, 78–9, 92, 96–7, 107, 110, 124, 134–5, 202
The General Theory, preface 101–3
influence 183
monetary economist 93
A Treatise on Money (1930) 49, 92, 107–12
Keynes, John Maynard, model
“aggressive effective demand” 219
Keynes’s view of capital and differences with the Austrians 110
Keynesian aggregate level 83
Keynesian aggregates
misdirection for understanding monetary and cyclical processes 77
Keynesian aggregation problem 150
Keynesian consumption function 156
Keynesian demand-deficiency model 123, 132–3
“Keynesian” economic theory 6
signature equation 2
Keynesian Economic Theory and its Critics 1
Keynesian economics 1, 201
conclusive fault line 235
economy to grow from demand side 202
problem 136–7
Keynesian economics failure
major reassessment across profession 139
Keynesian economists
failures of common sense of 165
Index

Keynesian Episode, The (1979) 244
Keynesian framework, weakness
“negative multiplier” in recent US
data 162
Keynesian income-expenditure
analysis
discrediting 44
Keynesianism
how prevalence over Austrianism? 101–3
PSST alternative 160
“Keynesianism”
intellectual con trick 199
Keynesianism, removal 218
“Keynesianized”, characterizing US
economy 102
Keynesian liquidity trap
Austrian critique 11
Keynesian macroeconomic analysis
39
Keynesian macroeconomics 4, 7
replacement need 218
Keynesian Revolution, main tenets 12,
202–3
Keynesians’ ignorance of role of
capital in economic system 195
Keynesian theory 5
no deep recession, twenty-five years
after war 129
overturning of self-imposed
restraints 126
Keynesian theory’s historic failures 7–8
Knight, Frank H. 2
knowledge distribution 215
known demand 28
labor force, composition changes 162
labor in each production sector
resources, capital equipment 84
Labour Government, UK, budget,
2008
fiscal stimulus, one per cent of GDP
204
language, self-organizing process 212
Latin America
highest growth rates, saving and
investing 231
Latin American countries
economic growth improvement 214
Lawson, Nigel, Chancellor of the
Exchequer
policy decision 61
leads and lags in determining outcomes
213
leakages 51
leakages from financial circulation
54
significance for forecasting 55–63
Leamer, Edward
discrepancy between statistical
theory and econometric practice
161
level of abstraction 206
level of aggregate demand, increase 5
level of demand
modern macroeconomics 131
life insurance policies 52
liquidation of unsound investments
195
liquidity preference 12
or demand for money 14
theory of interest 22
liquidity trap 12, 21, 22
market forces 19–22
loan rate and natural rate 21
loan rate of interest 14, 17–18, 20, 22
natural rate of interest 19
loanable funds theory 112–13
loan-market signals 93
falsified 93
policy-tainted 93
long hours 184
low interest rates 120
interest-rate sensitive production
processes 93
low interest rates in UK 208
low taxes
“general” theory of economy 219
Lucas, Robert (1976)
instability of macroeconomic model
161
new classicism 99
Lucas Critique 161
machinery, view of 184
machines’ work
less work for people 184
macro-aggregate approach
failure 86
What’s wrong with Keynesian economic theory?

macro-aggregates
“total demand” and “total supply” 85
macroeconomic
analysis 136
data 160–62, 161–2
data, inadequacy 162
demand management 12
equilibrium 68
outcomes 44
policies 203–6
policy for Latin America 214
relations 92
stability, UK economy after Second World War 57
theory 6
variables, constant composition 207
macroeconomics 238
“back-of-an-envelope” economics 206
Hicks–Hansen IS–LM analysis 235
Keynesian approach 99
short life 240
university teaching 46
macroeconomics dominance since 1930s 139
magnitudes, changes 98
mainstream macroeconomic thinking undermining 203
major error
spending way to prosperity 134
make-work projects 102
malinvestment 120
Malthus, T.R.
Principles of Political Economy (1820) 143
mandated price ceilings 21
manipulation of aggregate demand 201
Marget, Arthur W.
on monetary and related theory 80
“marginal revolution” 242
marginal tax rate reductions 172
marginalist revolution in economic theory in 1870s
William Stanley Jevons 77
market anticipations
Keynesian assumptions 86
market clearing 156
market-directed economic growth 93
market economies 211–12
progress and prosperity 242
market economy, developed institutions, entrepreneurships, introduction of new goods and services 207
market economy, inherently unstable 219
Keynesian myth 218
market prices 111
market, reliance on lasting solution 134
markets, unbalanced 131
Marshall, Alfred 219
Marx, Karl 219
mathematics in economic theorizing 213
meaningful patterns 118
measure of austerity, 2009–13 against measure of economic growth 205
measuring economic progress not by unemployment 119
Menger, Carl 219
mercantilism, influence 183
microeconomic adjustment processes 108
microeconomic interactions 207
microeconomic level 82
microeconomic policy 2002 Hartz Commission 214
micro-foundation monetary theory and Keynesian avalanche 78–9
micro-foudational theories 78
micro-foundations 240–41
Middle Ages
execution by king 170
Mill, James 142
Mill, John Stuart 144–5, 219
“Demand for commodities is not demand for labour” 144
Principles of Political Economy (1848) 241
minimal regulations 180
Minsky, Hyman P.
consumer spending drives the economy 225
Mises, Ludwig von
Theory of Money and Credit (1912) 93
Modigliani paper, 1944 49, 58
monetarism 13
monetary aggregates 62
monetary contraction
  weakness in aggregate domestic demand 56
monetary disequilibrium 68
monetary economy 246
monetary expansion
effect on market activities 88
monetary inflationary process, “Austrian” Friedrich Hayek, on 88
Monetary Policy Committee Bank of England 62
monetary policy, depressions 13
monetary policy, power and importance
Keynes mistaken in disparaging 223
monetary policy relation
real interest rate effect 155
monetary policy to target inflation 132
monetary theory and monetary policy tenuous links broken 201
money growth 62
accelerations or decelerations 55
money growth deceleration, late 1990 63
money hoarding
price falls 21
“money matters” 223
money spending, a virtue 190
money supply
and aggregate price level 163
and interest rates, impact on business cycle 223
mortgage loan, fixed-rate 171
mortgages 171
  financial derivatives 132
mortgages, supply
increased by low interest 165
multi-equation, multiple regression techniques
in US economy 161
multiple regression techniques 161
multiple specificity of capital goods 120
multiplier concept 44
multiplier “process” 47
Napoleonic Wars England in 1807 142
national expenditure 46, 47
national income 47
National Institute of Economic and Social Research (NIESR) 45
advocacy of fiscal reflation 58
national output 46
natural experiments
microeconomists 161
natural medicine, power of 180
natural rate
monetary rate of interest 16
natural rate of interest 16–17, 20
Keynesian macroeconomics 60
natural scientists, in 1970s interdependent variables 212
neoclassical economics, Milton Friedman
business confidence strengthening 210
“net” acquisition of financial assets 52
“net” in “net lending” 52
net sales of assets 68
network of self-organizing processes 212
net worth changes
motivation for volatile leakages 65
net worth figure 75
New Classical Macroeconomics 12
New Classical Revolution (1977) 12
New Deal
high levels of public spending 8
New Keynesianism 102
NIESR, see National Institute of Economic and Social Research 56
Nobel Prize winning adherents
  Keynesian economics 245
no business cycle of boom and bust 221
no business errors 221
no liquidity trap 221
no “new economics” of Keynes 221
Norman, Montagu
  Governor of Bank of England in 1920s 95
no separation of AS and AD
  Milton Friedman 221
notional demand 236
What’s wrong with Keynesian economic theory?

Obama, Barack
fiscal stimulus 204
Obama stimulus package of 2009 237
objective “price level”
statistical illusion 84
observational studies 161
oil price
rise and fall in 132
“oil shock”, 1973–74 154
Organisation for Economic
Co-operation and Development
(OECD) 63
OECD countries 205
Osborne, George, UK Chancellor
severe rate of fiscal tightening 209
overfunding of budget deficit 60
over-production 39
of one good 40
parasitism 189, 191
source of general prosperity 191
partial glut 39
pathology of the miser 190
pattern predictions 212
patterns of specialization, new 157
patterns of sustainable specialization
and trade (PSST) 157–9, 163–4
patterns of trade, unsustainable 157
pay for non-work
increases amount of work 165
PDI, see personal disposable income
pebble dropping into water
ripples and rest, more pebbles need
87
pension programs
for retired government employees in
US 224
personal disposable income (PDI) 59
personal income tax rate, highest 172
personal sector assets 58
Phillips Curve
Friedman, Milton (1967) 154
Phelps, Edmund (1970) 154
Phillips-curve-like relation
inflation 155
Phillips-curve theory 162
physical capital, destruction of 110
point predictions 212
policy-driven economic boom in US,
1920s 94–5
policy-induced boom, 1920s 93
policy-induced boom–bust episodes
versus vacillations in slack
economy 95–7
policy prescriptions 244–9
political theory
Keynesian economics 245
politicians
short-term political considerations
120–21
 politicization of stimulus spending 121
politics and economics
self-organizing process 212
Post-Keynesians
“effective demand” notion 248
popular Keynesianism 150
not intuitive 153
post-Global Financial Crisis 140
postwar recovery
conversion to Keynesian theory 128
post-war recovery, after 1945 8
poverty 185, 186
practical policy, Keynes’s approach
93–5
pre-Keynesian economics
“classical economics” 141
prescriptions for prosperity
higher tariffs 173
present consumption over future
consumption 15
present money 15
pre-war exchange rate of $4.87 to the
 pound 95
price adjustments 242, 246–7
price and wage rigidities 238, 243
price-cost difference
in different markets 207
price distortions and malinvestment
208
price falls 243
price level
and aggregate wage 163
general definition by Benjamin
Anderson 84
what it is 84
“price-level” statistically constructed
objections to 90
price lowering 21
price manipulation
Federal Reserve System 170
Index

price mechanism 111, 152, 247
price rise predictions 212
prices
  of long-life assets 243
prices fall 195
rising in mass unemployment 198–9
role 242–3, 249
price system 249
pricing system
  improving working of 244
primacy of demand instead of
  production 249
principles rather than rules
  for economic theories 214
private bonds 171
private investment expenditure 246
private sector activity 247
problems with Keynesianism
  Austrian capital theory view 106
production and demand 241
production and investment
  before consumption 228
production costs 30, 34–5, 41
production decisions
  opportunity costs 108
production expansion
  in nineteenth century 183–4
production limiting consumption
  186
production of economic value 27
production process 28–9
productionist views 186
  importance of consumer desires 187
productive resources 39
productive resources, scarcity 31
productivity and investment, crisis in
  231–2
productivity of labour 83
profit 28
profitability
  of investments 18
  of specific production process 29
profit and loss 117
  coordinating role 17
profit function 29
profit opportunity
  of entrepreneur 29–30
profit return 17
progressive taxation
  policy prescriptions 218
pro-Keynesian view of World War II
  revision by historians and
  economists 222
propensity to consume, value of 47
prosperity
  dependence on absence of wealth
  185
protectionism
  Keynesian model 219
PSST, see patterns of sustainable
  translations and trade
public spending 129
  combined with budget deficits
  126
public spending increases 135–6
public works expenditure
  creating employment 244
purchasing power 236
purchasing power raising 35
pure rate of interest 17
Quadrant, Australian magazine 123,
  124, 135
quantity of money 44, 54
quoted securities 50
rate of interest fluctuation 97
rates of interest, rising
  braking action of 100
rates of profit 207
rational expectations 240
  assumption of 239
Reagan, Ronald, President of United
  States 165
  spending restraint years 179–80
  tax cuts to stimulate growth 129
Reagan era 1977–88
  high personal income tax rate 173
Reagan recovery 166
Reagan supply-side years
  cuts in tax-rates 166
  dollar appreciation 166
  government spending under control
  166
  sound monetary policy 166
  "real balance" effect 202
real-world forecasting 54
Reason Foundation
  expert on roads and infrastructure
  223
recession
  free market economy 243
recession and inflation 8
recession causes 143
recession ending
  not from increased levels of public
  spending 126
return to sound finance and fiscal
discipline 126
recession fighting
  massive deficits, interest rates, low
  219
recession, potential causes
  not demand failure 125–6
recessions, none 125
recessions problem 131, 238
  absence of demand 125
  absence of demand for output 143
  deficiency of aggregate demand 125
  fall in consumption spending and
  investment 137
recovery of the private sector 134
reduction in propensity to consume
  new demands for scientists,
technicians 114
  retail clerks employment reduction
  114
reduction of interest rates
  slashing public sector wages, 1931
  127
regulation of markets 134
relation between costs and prices
  rate of profit 111
resources, unemployed 246
resource-using
  costly production process 33–4
  retail sales 231
retail store, luxurious
  dilapidated roads, alongside, in US
  231
revolutionary technology 39
Ricardo, David, economist 219
  no deficiency of demand 143–4
rich to poor, redistribution 165
rigidity of prices
  from government intervention 21–2
rigid money-wage policy 92
rigor-seeking Keynesianism 150–2, 154
roads and infrastructure in America
  substandard 223
  “Roaring Twenties” 165, 167
  massive cuts in tax rates 173
  spending restraint years 179–80
Roosevelt, Franklin Delano
  deficit finance 8
  New Deal with “Keynesian”
  prescription, 1933 127, 248
Röpke, Wilhelm 2
Royal Economic Society 69
Rueff, Jacques 2
saving
  not spending for purposes of
  consumption 192
  saving and hoarding 192
saving, frequently bad
  Keynesian myth 218
saving, investing, capital formation
  main ingredients of economic
growth 231
saving ratio fluctuations 63
saving ratio increase, 1990–92
  63
  “savings”
  income minus consumption 51
  “savings” and “investment” 52
  coordination 113
  dependence on psychological factors
  153
Keynes’s denial of link between 114
  savings decisions, individual
  self-defeating consumer demand,
down 241
  savings-investment identity 51–3
  savings leading to reduction in
  employment 114
  savings leading to reduction in total
  income
  Keynesian results 114
  savings ratio 63
  fluctuations in 52–3
Say, Jean-Baptiste 219
  greatest French economist, early
  nineteenth century 146
  “Law of Markets” 83
Say’s Law 125, 140–42, 218, 228, 244
  comment from James Mill,
economist 142–3
  correctly understood 142
  economists’ taught to reject 124–5
  full employment guaranteed by
market operation, Keynesian myth 124
“general” theory of economy 219
Keynes’s misunderstanding, 143–4
meaning “supply creates it’s own demand” 141
“supply creates it’s own demand” 125
Say’s Law and policy 147
Schumpeter, Joseph A. 219
creative destruction 157, 158
on Austrian inflationary way 88
Schwartz, Anna J. 99

  Monetary History of the United States, 1867–1960 (1963)
“the Great Contraction” 220
scientific procedure
self-organizing process 212
self-correcting market economy 13
self-organizing processes in human societies
significance of 212
self-organizing system 212
Senate, Australia, inquiry on stimulus 123
on Keynesian economics 141
report extract 138–9
share market prices across world plunge in 132
Shaw, George Bernard
Keynes’s letter to 102
“shock” expenditure 47
short-term focus
modern politics, modern economics and business 224
short-termism
justification 218
short-term processes
higher interest rates 18
“skilled” labor or “unskilled” labor 81
skills of unemployed 158
Smith, Adam 156, 212–13, 219
first principles for promoting economic growth 213–14
Smoot–Hawley Tariff legislation, US 173–4
snapshot view 27
social aspect to production 31
social security benefits, US 224

social Security/Medicare
unfunded liability 224
sound money 180
Southeast Asia
highest growth rates, saving and investing 231
special case, 1970s, huge increase in cost of oil 129
rapid growth in wages 129
UK’s economic prospects, dark, 1974 58
specialization and trade, patterns
150–51, 156–7
speculative demand 14–15
speculative demand for money liquidity trap 19
“Spending creates jobs and jobs create spending” 151–2, 156
spending for recovery
catastrophic 123
spending, lack of 152
spending newly created money 190
spending over saving
Keynesian model, 219
spending restraint 180
spending, wasteful and profligate easy and common 135
stabilization policies, counterproductive 98
“stagflation” of 1970s
downward spiral of economies 129
“stagflation” of 1970s, US 162
standard macroeconomic model 135
standard macroeconomics 4
static and dynamic accounts of the multiplier, 1930s 47
static equilibrium analysis 26–7
static equilibrium model 211
Stephen, Leslie
“best test of a sound economist” (1876) 144
sterling selling
falling exchange rate 209
stimulus check 176
stimulus model, Keynesian, failure 121
stimulus packages 177, 195
drain on the economic system 197
more loss of capital 196–7
should be stopped 198
What’s wrong with Keynesian economic theory?

stimulus program 178
stimulus spending 245, 246
stimulus spending by the Keynesians 119, 121
stock market advance 1986 60
stock market index 212
stock prices 93, 231
structural unemployment
wine and cloth 163
structure of demand
Keynes recessions 131
subsidization by government of sector of economy 36
substantial unemployment
Keynesian economics 246
substitution effects 178
incentives reduction 179
substitution effects in an economy 178
supply 81
supply and demand for different commodities 83
supply chain of goods 156
supply curve constraint
mortgages 170
“Supply really does create demand” (François Hollande) 146–7
supply-side economics 172, 176
supply, value-adding 147
sustainable patterns of trade 157
tariffs, increase in 173–4
tax cuts 129, 173
tax cuts in Japan 130
tax cutting
  corporate business and investments 232
tax policies
  Keynesian periods, 1929–39 172
  supply-side periods, 1921–29, 1981–89 172
tax rates
  corporate income for Great Depression and Great Recession years, 1929–39 and 2004–14 172
  for capital gains 172
  for personal income 172
taxing work
  increases amount of 165
tax-rebate plan
  President Gerald Ford, 1970s 178
technological advances in nineteenth century
  accumulation of capital goods 189
  technological change 48
  technological errors 28
  technological progress 189
  new uses for capital goods 185
  technological progress, lack of
  no increase in capital goods 188–9
  technological progress value 187
  technology and capital goods 187–8
Template Letter 3
temporary idle resources, 89
Thatcher government
  “monetarist” policy 60
  theory of aggregate demand 7–8
time-consuming
  temporal production process 33–4
time dimension 47
time paths of consumption 94
time preference
  present consumption over future consumption 15
time preferences 18
Total Output 227
  consumers on consumption goods 137
Total Output and Employment 79
“trade cycle”
  boom and bust 98
  trade cycles
    boom phase 96
  trade needs, accommodation 100
  transfer payers 177
    demand reduction 179
  transfer payment check
    Summers’s logic 176
  transfer recipients 177
    spending more 179
  transfer resources and spending power 179
Troubles Asset Relief Program (TARP) 223
Truman, Harry S., American President
  no fiscal stimulus to American economy 128
unemployment, 89, 92, 150, 239
unemployment benefits 21
unemployment compensation, generous 102–3
unemployment countering “print money”, spend, borrow 244
unemployment, growing 194
unemployment increase 157
unemployment problem job loss, options available 157–8
unemployment rates, double-digit 78
unemployment rates in United States, UK and Australia, 1929 to 1938 127
unemployment situations Keynesian economics relevance 244–5
unfunded liabilities in America 224
unit trust units purchase 52
unitary rate of interest 16
United Kingdom Blue Book 52
United Kingdom Clearing House Automated Payment System (CHAPS) 50
United Kingdom fiscal policy tightening 67
United Kingdom Payments Administration Ltd payments settlement 48
United Kingdom savings ratio, 1963 to 2015 63
United States Bureau of Economic Analysis 226–7
United States economy investment-driven, not consumption-driven 228
United States employment rate 160
United States stock market companies buying back own shares 208
value and production glut 33–6
value creation 36
 sale at profit 34
value-creation process on consumers’ terms 41
value creation through production 42
value destruction sale at a loss 34
value of transactions significance 47–50
value productivity not physical productivity 110
Vietnam War 129
virtues of thrift “general” theory of economy 219
Wage Level 79
wage rates, lower cost and prices, lower 195
wage rates, sticky-downward 92
wage restraint during 1973 58
Walrasian general equilibrium 239, 242
wars, natural disasters beneficial to Keynes 196
Washington Consensus John Williamson 214
waste workers in industries 163
weakness in an industry 159
wealth, spending one’s way to 165
websites delivering news 157
welfare state 218
welfare state, slow development postwar period 129
“wholesale financial” transactions 50
Wicksell, Knut, Swedish economist rising prices, 1898 86
Wicksellian model nature of capital 109
World Bank world output value, 2013 48
World War II benefits of massive deficit spending 222
world’s economies, instability carbon emissions limitation 132