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
   annus horrendous 1988 62
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
What’s wrong with Keynesian economic theory?

| “austerity” | 140 |
| “austerity” episodes | 204 |
| “austerity” promise | 209 |
| Australia | 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 |
| 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 | 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 | 219 |
| “general” theory of economy | 219 |
| balanced markets | 244 |
| 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 | 218 |
| big government over laissez faire | 218 |
| Keynesian model | 219 |
| Blue Book, UK presentation of national accounts | 52 |
| bond market | 168–9 |
| bond markets | 170 |
| Operation Twist | 170 |
| bond prices | 15, 19 |
| books on Keynes | 204 |
| after 2007–09 economic crisis | 245 |
| “boom and bust” warning | 56 |
| boom–bust episode | 100 |
| root cause identification | 98 |
| boom–bust sequence | 94 |
| misdirection of resources | 94 |
| British Classical Economists | 183 |
| 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 |
| as heart of the economy | 232 |
| business confidence | 246 |
| business cycles | 53 |
| dot.com bubble, 2000 | 96 |
| housing bubble, 2005 | 96 |
| business firms | 192 |
| business investment | 190 |
| 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 | 145 |
| 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
  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 notion 49, 54, 68, 69
  “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
What's wrong with Keynesian economic theory?

consumer desire unused
strong consumer demand 185
Consumer Expectations Index
link to future retail sales 231
“consumer goods”
versus “producer goods” (capital) 81
consumer goods and producer goods
16
consumer goods, higher prices 198
consumer goods industries 114
consumer inflation
1 per cent over 2 per cent target 62
consumer preferences 20, 28
consumer role 32
consumers’ expenditure (in real terms)
forecast, 1974 57
consumer society justification 218
consumer spending 228
not driving the economy 232
not leading indicator 231
consumer spending drives the economy
(anti-saving mentality) 219
Keynesian myth 218
consumer spending stimulation
in some lines of investment 231
consumer wants 33
consumption 46–7
effect of nation’s prosperity 228
entrepreneurial profits 32
leading to production 32
uses up economic value 248
consumption and investment 15–16
relationship between 113
consumption expansion
twentieth century 183–4
consumption expenditures
in United States 225
consumption, financing of 195
consumption, high level
key to prosperity in US 225
consumption–investment proportion
decrease 20
consumption of the government
support for economic system 189–90
consumption over saving
Keynesian economics 218
consumptionism 189
perversion of values 191
consumptionist
and advertising 187
consumptionist belief, 191
people eager to accept reward
without work 190
purposeless passion for work
without reward 190
consumptionist’s values
absence of wealth 185
consumptionists and productionists
189
context specific outcomes 213
contra-cyclical adjustments to
government spending 45
control factors, specification of 161
conventional economics
fundamental economic problem,
scarcity 153
price adjustment eliminates
surpluses and shortages 153
savings promotes capital formation
153
“conventional wisdom”
Keynesian economics 245
“coordination” (Friedrich Hayek) 119
coordination and balance 84
corporate equity 50
correlations 97
cost-covering prices, sale at 34
cost-of-production theory of value
203
costs 77
“Counter-Inflation Programme” (1973
Act of Parliament) 57
country with own currency 209
credit and regulatory policies, loose
boom in house and other asset prices
203
credit card 48
credit creation 244
“credit crunch”
loss of confidence 203
“credit cycle” 53
credit effect 57
credit expansion, 39
loss of capital 194
currency depreciation justification 218
cycles and slumps
in an overly aggregated theoretical
framework 92
cyclical instability in the savings ratio
63–4
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
declining 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
    - true “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 Money 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
**Index**

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  
in 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  
mange 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
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
Freemarket 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
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
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
relationships 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
Margaret, 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-foundational 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. 219
consumer spending drives the
economy 225
Mises, Ludwig von
Theory of Money and Credit (1912) 93
<table>
<thead>
<tr>
<th>Term</th>
<th>Page(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Modigliani paper, 1944</td>
<td>49, 58</td>
</tr>
<tr>
<td>monetarism</td>
<td>13</td>
</tr>
<tr>
<td>monetary aggregates</td>
<td>62</td>
</tr>
<tr>
<td>monetary contraction</td>
<td>13</td>
</tr>
<tr>
<td>monetary disequilibrium</td>
<td>68</td>
</tr>
<tr>
<td>monetary economy</td>
<td>246</td>
</tr>
<tr>
<td>monetary expansion</td>
<td>88</td>
</tr>
<tr>
<td>monetary inflationary process</td>
<td>68</td>
</tr>
<tr>
<td>monetary policy</td>
<td>13</td>
</tr>
<tr>
<td>money growth</td>
<td>62</td>
</tr>
<tr>
<td>money hoarding</td>
<td>21</td>
</tr>
<tr>
<td>money supply</td>
<td>163</td>
</tr>
<tr>
<td>mortgage loan, fixed-rate</td>
<td>171</td>
</tr>
<tr>
<td>mortgages</td>
<td>171</td>
</tr>
<tr>
<td>multiple regression</td>
<td>161</td>
</tr>
<tr>
<td>multiple specificity of capital goods</td>
<td>120</td>
</tr>
<tr>
<td>multiplier concept</td>
<td>44</td>
</tr>
<tr>
<td>multiplier “process”</td>
<td>47</td>
</tr>
<tr>
<td>Napoleon</td>
<td>142</td>
</tr>
<tr>
<td>national expenditure</td>
<td>46, 47</td>
</tr>
<tr>
<td>national income</td>
<td>47</td>
</tr>
<tr>
<td>National Institute of Economic and Social Research (NIESR)</td>
<td>45</td>
</tr>
<tr>
<td>advocacy of fiscal reflation</td>
<td>58</td>
</tr>
<tr>
<td>national output</td>
<td>46</td>
</tr>
<tr>
<td>natural experiments</td>
<td>161</td>
</tr>
<tr>
<td>natural medicine, power of</td>
<td>180</td>
</tr>
<tr>
<td>natural rate</td>
<td>16</td>
</tr>
<tr>
<td>natural rate of interest</td>
<td>16–17, 20</td>
</tr>
<tr>
<td>Keynesian macroeconomics</td>
<td>60</td>
</tr>
<tr>
<td>natural scientists, in 1970s</td>
<td>212</td>
</tr>
<tr>
<td>interdependent variables</td>
<td>212</td>
</tr>
<tr>
<td>neoclassical economics, Milton Friedman</td>
<td>210</td>
</tr>
<tr>
<td>business confidence strengthening</td>
<td>210</td>
</tr>
<tr>
<td>“net” acquisition of financial assets</td>
<td>52</td>
</tr>
<tr>
<td>“net” in “net lending”</td>
<td>52</td>
</tr>
<tr>
<td>net sales of assets</td>
<td>68</td>
</tr>
<tr>
<td>network of self-organizing processes</td>
<td>212</td>
</tr>
<tr>
<td>net worth changes</td>
<td>65</td>
</tr>
<tr>
<td>motivation for volatile leakages</td>
<td>75</td>
</tr>
<tr>
<td>New Classical Macroeconomics</td>
<td>12</td>
</tr>
<tr>
<td>New Classical Revolution (1977)</td>
<td>12</td>
</tr>
<tr>
<td>New Deal</td>
<td>8</td>
</tr>
<tr>
<td>high levels of public spending</td>
<td>8</td>
</tr>
<tr>
<td>New Keynesianism</td>
<td>102</td>
</tr>
<tr>
<td>NIESR, see National Institute of Economic and Social Research</td>
<td>56</td>
</tr>
<tr>
<td>Nobel Prize winning adherents</td>
<td>245</td>
</tr>
<tr>
<td>Keynesian economics</td>
<td>221</td>
</tr>
<tr>
<td>no business cycle of boom and bust</td>
<td>221</td>
</tr>
<tr>
<td>no business errors</td>
<td>221</td>
</tr>
<tr>
<td>no liquidity trap</td>
<td>221</td>
</tr>
<tr>
<td>no “new economics” of Keynes</td>
<td>221</td>
</tr>
<tr>
<td>Norman, Montagu</td>
<td>95</td>
</tr>
<tr>
<td>Governor of Bank of England in 1920s</td>
<td>95</td>
</tr>
<tr>
<td>no separation of AS and AD</td>
<td>221</td>
</tr>
<tr>
<td>Milton Friedman</td>
<td>221</td>
</tr>
<tr>
<td>notional demand</td>
<td>236</td>
</tr>
</tbody>
</table>
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
Organization 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
politization 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
Index

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.
Monetary History of the United
States, 1867–1960 (1963) 99
“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 production 192
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
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