The Economics of John Maynard Keynes

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As is well known, the Great Depression, in the 1930s, changed the economic theory and economic policy. At that time, the Neoclassical theory and orthodox economic policies were replaced, theoretically and empirically, respectivelly, by the Keynesian theory, after publication, in 1936, of *The General Theory of Employment, Interest and Money* (GT), by John Maynard Keynes, and the "New Deal" in the United States. From then and until the beginning of the 1970s, Keynesian Economics and its countercyclical economic policies, mainly fiscal and monetary, were fundametal to expand effective demand and, as a result, to sustain the economic growth and income distribution of the world economy over time.

In the late 1960s and middle of the 1970s, the Keynesian theory suffered attack from two similar schools of economic thought: Monetarism and New-Classical. In short, the Monetarists used to argue that, given that in the long run changes in the money supply affects only the price level, central banks should manage/control the money supply over time once the economy tends to its natural rate of employment with a steady rate of inflation, and, on the other hand, as well as they advocate a free-market capitalism, while the New-Classicals incorporated rational expectation hypothesis into macroeconomic models and criticized Keynesian economists because they could not provide a logical explanation for the stagflation process in the 1970s.

The reaction to the Monetarism and New-Classical schools came with the Post-Keynesians who were focused, on the one hand, on rebuilding economic theory in the light of main Keynes' ideas and insights related to GT and *A Treatise on Money*, among others, and, on the other hand, on confronting the Neo-Classical Economics that became dominant in macroeconomic at the end of the 1970s.

The Post-Keynesian theory was successful in rescuing and strengthening Keynesian theory, however, unfortunately, the mainstream economics and policy makers around the world became highly influenced by supply-side economics, liberal reforms and New Consensus Macroeconomics.

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The international financial crisis (IFC), 2007–2008, and, recently, the COVID-19 crisis, 2020-2022, not only put mainstream economics and policymakers in the spotlight, but also brought Keynesian theory and its countercyclical economic policies back into the economic debate.

The Fábio Terra's book, **The Economics of John Maynard Keynes** (2023), as the author states, "aims to present the economic theory of [Keynes] in a straightforward and simple manner" (Terra, 2023, p.1). But even more importantly, this book is a guide to Keynes for students, undergraduate and graduate, and economists who have has difficulty understanding the main Keynes' ideas and insights related to the role of money in the economic activity, expectations and uncertainty, economic policies – specially, fiscal policy –, international monetary system, and so on.

The book has four parts.

In Part I, Terra presents the Keynes' thought foundations, that is, his ideas and insights concerning probability and a controversial topic to Keynesian theory, that is, method. According to the author, uncertainty and method to explain the economic and social phenomenon are related because the theory of knowledge Keynes developed in his *A Treatise on Probability* is anchored in induction or reasoning, which Keynes used to describe the economic agents' behavior and the logic of the economic system.

In the next Part, the author analyses the role of money in *A Tract on Monetary Reform* and *A Treatise on Money*. In the fisrt one, more specifically on Chapter 3, Terra describes the Keynes' idea that, in the short-run, money is not neutral, while in *A Treatise on Money* he shows how is developed the Keynes' asset choice theory that aims at connecting the real and financial markets to describe, as Keynes (1930/1976, vol.1, p.v) "the dynamical laws governing the passage of a monetary system from one position of equilibrium to another" – specifically, disequilibrium situations, such as: economic *boom* and inflation, if investmente is greater than saving, and if saving is greater than investment there are recession and deflation.

In Part III, with 8 chapters, Terra explores the main propositions presented in the GT that, implicitly, describe the *modus operandis* a monetary economy: (i) Income determination and multiplier/marginal propensity to consume; (ii) Investment theory or marginal efficiency of capital; and (iii) Theory of interest rate, that is, liquidity preference. These propositions explain that, according to Keynes (1936/2007, p.vii), "[a] monetary economy [...] is essentially one in which changing views about the future are capable of influencing the quantity of employment and not merely its direction."

Finally, in Part IV, called "Beyond GT", Terra discusses the goals of the main macroeconomic countercyclical policies, such as fiscal, monetary and exchange rate, as well as analyses two important topics, not only on Keynesian Economics, but also in nowadays, that are the function of the State in the capitalism system and the idea of economic and social development. In terms of macroeconomic coutercyclical policies, there is no doubt that without them the world economic crisis during the IFC and the COVID-19 crisis would be worse. Thus, Terra shows how they are necessary to mitigate the instability of the capitralism system. Considering that Keynes' monetary economy argues that capitalism is inherently unstable, Terra argues that State should exercise its function as regulator, coordinator and inducer of economic activity. Going in the same direction, according to Keynes (1936/2007, p.378), State has to "exercise a [...] comprehensive socialization of investment". In terms of development, an obscure topic in Keynesian theory, Terra, according to his interpretation of the Keynes' books and articles, believes that economic and social development, in Keynes' view, should be related to sustainable economic growth, full employment and income distribution. Therefore, the love of money must be replaced by the love of living.

Last but not least, I would like to say that Terra was one of the best graduate students I had in my academic life. Moreover, it was my pleasure to be his advisor in his PhD thesis and, since then, we have published several articles, book chapters and organized a book about Keynes. To conclude, considering that Terra is a very close friend, I would like to quote Lennon & McCartney (In My Life/Rubber Soul, 1965): "There are places [and friends] I remember All my life [...] Some have gone, and some remain".

References

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