**Axis 11: Keynesian economic thought and contemporary economic theories**

**First: Keynesian economic thought**

The Keynesian school, which is attributed to the well-known Briton (John Maynard Keynes), is one of the most important schools of economic thought and the most researched in highlighting the role of the state and paying attention to the issue of unemployment. It appeared as a result of the global economic crisis that occurred in 1929, which was called the Great Depression, and it was given a solution after the classical and neoclassical schools were unable to solve the problem.

The main problem for Keynes was the necessity of eliminating unemployment and working to achieve full employment. Keynes's basic ideas came in his book, "The General Theory of Employment, Interest, and Money," which was published in 1936. In it, he strongly criticized the classical theory and presented his new theory of employment.

*Keynes criticized the ideas of the classical school and presented alternatives to them. The most important of these criticisms are:*

* Keynes criticized Say's Law, which states that supply creates equal demand. He considered that demand is what creates supply, and therefore he was interested in studying the components of aggregate demand (consumption - investment - the government sector - the external sector).
* Keynes criticized the idea of equilibrium at the level of full employment and considered that underemployment (the presence of unemployment) is the natural state in the economy. Also, work is not the only one that determines production capacity, because production depends on elements of great importance such as capital and technology.
* Kenz criticized the idea of complete flexibility of prices and wages, as he saw that wages do not move completely freely because trade unions refuse to reduce wages, not to mention the existence of laws specifying minimum wages.
* Keynes believes that perfect competition does not exist in practice
* Keynes saw the necessity of state intervention in economic activity, especially in times of economic crises.
* Keynes criticized the idea of the neutrality of money, as Keynes believed that money affects economic activity. For example, increasing the money supply leads to a decrease in the interest rate, and this leads to increased investment and thus increased production and increased employment (decreased unemployment).
* Keynes believed that saving is related to income and not to the interest rate as the classics believed.

**Second: Contemporary economic theories**

A diverse number of schools fall within neoliberal thought, most notably the Chicago School, the Austrian School, and the School of Supply-Side Economics

 **1- The monetary school:**

The critical school (or Chicago School) is considered one of the most famous schools of thought that represents the new liberal trend, and one of its most important pioneers and founder is Friedman Milton.

Friedman is considered a liberal economist who calls for individualism and freedom, and sees the need to limit the role of the state to the narrowest limits. For him, capitalism is a system that does not contain defects. Rather, government intervention in economic activity, the puritanism of workers and their insistence on increasing wages are the obstacles that prevent the laws of the market economy from working, even if they exist. Freedom. The mission of governments was limited to protecting this freedom. Then the system could move easily and return to what Adam Smith called the “invisible hand” that could achieve general balance.

*Among the principles of the monetary school are:*

- Rejection of Keynesianism: The economy under the capitalist system is achieved automatically, and the state must not address the problem of unemployment, but leave it to solve itself through market mechanisms.

- Optimal behavior: Monetary school economists emphasize the classical principle that people try to maximize their profits, that the basic economic unit is the individual, that individuals combine to achieve benefits from specialization and exchange, that people make rational decisions, and that consumers, workers, and establishments respond to financial incentives.

**- The role of money:** Monetarists emphasize the role of money in determining the balance in real GDP and prices. In their view, changes in the money supply have broad effects on spending through both consumption and investment.

Monetaries believe that the capitalist system is inherently stable, and that it is not necessarily exposed to inflation, unemployment, and stagnation.

**- Limited government:** Government, in the view of monetarists, is inherently incompetent as an agent for achieving goals that can be achieved through exchange among individuals. Government officials have their own goals that they seek to maximize.

**2- The Austrian School:**

 The Austrian thinker of British origin, Frederick Hayek, is one of the most important and famous liberal thinkers of the twentieth century. He belongs to the Austrian school that appeared at the beginning of the seventies of the nineteenth century in Austria. The Austrian school revived the liberal trend and restored the classical liberal ideas related to market freedom, laissez-faire policies, and the superiority of the capitalist system over other systems. This was led by Hayek, who was the last surviving member of the old generation of the Austrian school, who undertook the task of promoting new liberal ideas on the level of the capitalist world.

The Austrian school defends the capitalist system on the basis that it is the most efficient system in mobilizing and employing resources, in creating new technology and applying it in production, and in reducing production costs. The free market, left to its own laws, will achieve stability in prices and a balance between supply and demand, and between the available resources and the ability to mobilize and operate them.

It believes that capitalism is fair because it gives each party in the production process what is equal to the value of its work.

The Austrian school also focuses on microeconomic concepts and the rational actions of individuals.

**3- The school of supply-side economics:** which is also known as (Reagan) economics, because former US President Reagan Ronald was the first to implement the supply-side policy, and contributed to spreading its main idea, which is that “reducing taxes on investors will give them the incentive to save and invest and thus encourage an increase in production.” Which leads to higher income and employment levels and greater prosperity.

 This school attempts to explain macroeconomic phenomena, and then provides political prescriptions for stable economic growth, and is generally based on three pillars: tax policy, regulatory policy, and monetary policy. Production is the main idea behind these pillars and is the most important determinant of economic growth. In other words, this school believes that producers and their willingness to create goods and services determine the pace of economic growth.