What Remains of Keynes' Work in Today's Economics?
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By the 1960s, the economics profession and economic policymakers had accepted three basic ideas that distinguished Keynesian economics from pre-Keynesian economic thinking. First, the levels of national income and employment depend on aggregate demand rather than on the capacity to supply output or the desire to work. Second, a high level of saving can therefore reduce national income. Third, an increase in government spending can raise national income and return the economy to full employment.

Today these ideas are regarded as relevant only to some short-run situations and not to the basic long-term goals facing economic policy. Fluctuations in aggregate demand influence short-run cyclical movements of output and employment but the sustained rate of economic growth reflects the accumulation of capital, the supply of labor, and the advance of technology. A rise in the level of saving can reduce aggregate activity temporarily but only a sustained high level of saving makes it possible to have the sustained high level of business investment that contributes to the long-run growth of output. Increased government spending can provide a temporary stimulus to demand and output but in the longer run higher levels of government spending crowd out private investment or require higher taxes that weaken growth by reducing incentives to save, invest, innovate, and work.

Keynes' ideas reflected the very unusual conditions of the great depression years. Fortunately, the western economies have not seen a return to those conditions at any time in the past half century. Today's macroeconomic problems require attention to more fundamental forces of individual incentives and institutional rigidities.

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