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**Theory of J. M. Keynes as  
a revolutionary approach  
to economics**

In 2016 been celebrated the 80th anniversary of publication of the work of Keynes' «General Theory of Employment, Interest and Money». This date are updated by exploration of the phenomenon of labor, forces to search for the answer to the question about the causes of heated discussions that have unfolded around her. Keynes refuted many provisions of the preceding economic science, he has criticized the basic principles of the classical theory. First of all, in contrast to the classical school, he discovers that the market mechanism has no internal self-regulating mechanisms, and demonstrates the need for state regulation of the economy. Keynes changed the methods of studying the economic reality: introduced the macroeconomic approach, take into account the psychological aspects of human behavior, paid much attention to the uncertainty factors and expectations.

**Key words:** methodology of. Keynes, paradox of thrift, effective demand, multiplier, Keynesian methods of economic regulation.

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**Дж. М. Кейнстің теориясы  
экономикалық көзқарастың  
төңкерісі ретінде**

2016 жылы Кейнстің «Жұмыспен қамтудың, пайыздың және ақшаның жалпы теориясы» атты еңбегінің жарық көргенінің 80 жылдығы аталады. Бұл күн аталған еңбек феноменінің зерттелуін өзектендіреді, аталған еңбек аясында орын алған қызу пікірталастардың себептерін іздеуге итермелейді. Кейнс алдыңғы экономикалық ғылымның көптеген ережелерін теріске шығарды, классикалық теорияның негізгі қағидаларын сынға алды. Ең әуелі, классикалық мектеп өкілдерінен ерекше, Кейнс нарықтық механизмде өзін-өзі реттеудің ішкі механизмдері жоқ екендігін ашады және экономиканың мемлекеттік реттелуінің қажеттілігін дәлелдейді. Ол экономикалық шындықты зерттеудің әдістерін өзгертті: макроэкономикалық тәсілді енгізді, адам мінез-құлқының психологиялық аспектісін ескерді, анықталмағандық және күтім факторларына аса көңіл бөлген.

**Түйін сөздер:** Кейнс әдістемесі, ұқыптылық парадоксы, тиімді сұраныс, мультипликатор, экономиканы реттеудің кейнстік әдістері.

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**Теория Дж.М. Кейнса как  
революция экономического  
мировоззрения**

В 2016 г. отмечается 80 лет со дня выхода в свет работы Кейнса «Общая теория занятости, процента и денег». Эта дата актуализирует исследование феномена данного труда, заставляет искать ответ на вопрос о причинах бурных дискуссий, развернувшихся вокруг нее. Кейнс опроверг многие положения предшествующей экономической науки, подверг критике основополагающие принципы классической теории. Прежде всего, в отличие от представителей классической школы, он обнаруживает, что рыночный механизм не имеет внутренних механизмов саморегулирования, и доказывает необходимость государственного регулирования экономики. Кейнс изменил методы изучения экономической действительности: ввел макроэкономический подход, учитывал психологические аспекты человеческого поведения, большое внимание уделял факторам неопределенности и ожиданий.

**Ключевые слова:** методология Кейнса, парадокс бережливости, эффективный спрос, мультипликатор, кейнсианские методы регулирования экономики.

**THEORY OF  
J. M. KEYNES AS A REV-  
OLUTIONARY  
APPROACH TO  
ECONOMICS**

The work of J.M. Keynes «The General Theory of Employment, Interest and Money» is, without doubt, the most significant work in the field of economic theory in the twentieth century. And this view is held by Keynesian supporters and opponents. All 80 years after the invention of this theory there have been ongoing debates around the main ideas of this work. The reasons for such an ambiguous attitude towards Keynes's work a lot. But, apparently, the main thing is a refutation of the main postulates of all previous economics, which argued that the volume of production and, consequently, the ability to meet the needs depending on the rarity and limited resources. And the efficient allocation of resources is only possible as a result of the free market mechanism with minimal state. Keynes, in contrast to the classical school, came to the conclusion that all the vital problems of the economy should be studied not on the side of production, but on the demand side, ensuring the implementation of the results of production. And it is possible to influence the production and income through a combination of fiscal and monetary policy.

During the Great Depression there was the problem of employment, and to the analysis of the problem by Keynes suited radically different than the classics. Representatives of the classical theory proceeded from the fact that the market mechanism is able to provide full employment of the population, assuming the existence of a «voluntary unemployment» (Pigou). Equilibrium in the labor market is provided by wage and price flexibility betting board as the upward and downward. But to the 20-30-th years of the twentieth century the situation had changed: monopoly laws on minimum wages, trade union policies have led to the fact that prices and wages have become inflexible, especially downward. As a result, there is no reduction in prices and reduction in output and employment while reducing demand. Equilibrium is restored at the expense of unemployment. Accordingly, Keynes concludes that the equilibrium state of the economy with full employment is not typical; involuntary unemployment has an intrinsic in its appearance.

Keynes had changed the method of investigation. For the previous theories there was a typical microeconomic approach, which consists in the fact that the analysis is conducted in terms of individual economic units. Terms of the individual firm prosperity in

this case identified with the terms of the prosperity of the nation as a whole. Keynes used the same model of the interaction of a limited number of aggregated values that are needed in order to explain what it depends on the volume and dynamics of the production level. This gave rise to a new branch of economics – macroeconomics that allowed to make quantitative predictions of how «the economy» will behave in response to any change in government policy. According to well-known economist N. Kaldor, «the main reason why Keynes's book found such a widespread echo so soon after its publication was that it brought economics «back to earth» – back to its original purpose of being an instrument for formulating rational policies concerning the economy» [1, c. 2].

The key provision of Keynes's theory is a scientific system of effective demand. Investigating the causes of unemployment, the scientist concludes that the level of employment, and hence the volume of production are determined by demand factors, not supply. In contrast to the classics, which have not made the demand significant, Keynes put it at the center of his theory. As noted by one of Keynes' contemporary, modern depression are not caused by the lack of goods but market failures, not by the supply, but by the lack of demand.

Under the effective demand Keynes realizes the effective demand, which determines the level of employment. Its components are consumer spending and investment. Considering the factors that determine the amount of consumer spending, the author, along with such as income, purchasing power of money, people's desire to secure a reserve of money, selects the psychological aspects. Keynes formulated the «fundamental psychological law is that men are disposed, as a rule and on the average, to increase their consumption as their income increases, but not by as much as the increase in their income» [2].

From the basic psychological law that the richer a society, the higher the income, which it has, the lower part of this income is directed to the consumption and increasing – for savings. In order to maintain full employment is necessary that the growing savings absorbed by increasing demand for investment. Keynes considers investment a major factor in effective demand, and one of the major problems in his theory – the achievement of such a level of investment which would ensure full employment. The volume of investment depends, firstly, by limiting the effectiveness of capital and, secondly, the rate of interest in investment decision making based on the comparison these two values. Marginal efficiency of capital is, the expected income from additional unit of capital. En-

trepreneurs will invest up to as long as it is expected that future income from capital exceeds the percentage. Marginal efficiency of capital depends on the assessment of future income, so it is very sensitive to speculation, panic, expectations, etc. Such approach allows us to explain why the amount of investments are reduced at lower interest rates, and, conversely, grow at its rising. If entrepreneurs are very pessimistic about the future, and sufficiently cheap loans will not attract them. In conditions of economic growth and the optimistic forecasts, will increase the demand for expensive enough investment resources. The determining factor is not the absolute value of the interest rate, and its relation to expected income. The rate of interest determines the lower limit of the investment profitability.

In the theory of interest Keynes also departs from the traditional classical school explanation percent as a payment for saving or expectation, pushing with a fairly simple counter-argument: if people keep their savings in the form of cash, he receives no interest, although these savings are not worse than others. Thus, the percentage could be pay-per-savings. In the Keynesian interpretation of the interest is a purely monetary phenomenon, reflecting the demand for and supply of money.

The demand for money is determined by the «liquidity preference» proposal – the amount of money in circulation. In this connection necessary to address to the theory of «liquidity preference». In almost all models created by the representatives of the classical school, the money is only considered as a medium. In the opinion of J. Keynes, money plays an active role in the economy, are a privileged part of the assets, which tends to any economic transactor. He identifies three reasons for which people prefer liquidity, that is, the wish to carry the cash: 1) transactional motive, arising from the needs of commodity-money circulation; 2) the precautionary motive, that is, just in case people want to have on hand a bit more money than is necessary for the transaction (transactions); 3) speculative motive, directly related to the rate of interest. Arguing about the speculative motive of liquidity preference, Keynes refers to stock trading. In general it was one of the great hobbies of the scientist, to whom he frequently enough returned, although engaged in various activities, and stock speculation allowed him to increase personal wealth. As part of the income is saved, there is the problem of choosing the form in which to store assets: a liquidity or securities (of course, the forms in which it is possible to keep the assets much more, but Keynes focuses on these two). When you select the important role played by people's expectations about the future behavior of in-

terest rates. If the percentage is too high, then people expect that we should wait for it to decrease, while the rate securities will rise. In this situation – is preferable to hold the securities as money. If the percentage is low enough, and in the future it may increase, the liquidity should be held, and the securities to buy later when their price will fall. Keynes concludes that the market actors prefer liquidity, and this preference increases in times of uncertainty and instability of the money market. The interest rate is, in his words, «payment for parting with liquidity» and is to a large extent a psychological phenomenon. We can see that in the consideration percentage, as in the case of consumer spending, Keynes refers to the psychological aspects of human behavior. In this he also departs from the classical theory of the inherent method of «economic man» involves consideration of a person exclusively from the point of view of rationality.

Has already been noted that in the structure of effective demand, Keynes considered the most important element of the investment. Firstly, compared to consumption expenditures, they are more volatile, unstable, and therefore, significantly affect the fluctuations and the total production level of employment. Second, Keynes establishes a connection between the growth of investment and income growth, called a multiplier. Keynesian investment multiplier developed based on the employment multiplier R. Kahn. The idea of the multiplier is: investment growth is ultimately an increase in someone's income; the resulting income is spent on consumption and income is converted into new persons (snowball effect). Important to note that the Keynesian multiplier model are not talking about an increase in national income due to the effect of productive investment. On returns on investments could have been talk only in the long term, and the analysis would be conducted using a production function. Keynes also explores the impact of investment from the perspective of the formation of monetary income, depending on the propensity to consume society. The higher portion of their income spent on consumption society, the greater the multiplier.

And in this moment, Keynes refuted one of the basic imperatives of the classical theory – thrift. In the previous times, the thrift was considered the virtue, a source of savings, contributing to prosperity. Keynes believed that thrift, reducing consumer spending, leading to overproduction, which affects the level of production and national income. And one should not expect an increase in investment as a result of the savings were considered representatives of the classical school. Under the conditions

of demand reduction entrepreneurs will not increase their spending. In Keynesian theory, this situation is called «paradox of thrift».

Keynes rejected the doctrine of laissez faire, the belief that in this case the value will be insufficient demand relative to output, and any unemployment, depression, and other adverse events. The state should stabilize the economy, affecting the effective demand. Keynes is considering two main methods of regulation of the economy: monetary and fiscal policies. The first method is directed to intensify investment demand by lowering the interest rates. But in conditions deep recession investments almost do not react to lower the interest rate. Furthermore, the limitations of monetary policy is explained by the «liquidity trap»: beyond a certain threshold, an increase in the money supply does not lead to a reduction in interest rates. In this regard, Keynes believed that the more efficient and effective control method is budget policy. The lack of private investments should be covered by an increase in government spending, and Keynes believed that even a deficit spending is valid.

Methods of increasing effective demand, Keynes recommended, requires the money supply growth. If there is unemployment of resources, unemployment, the increase in the money supply affect the level of employment and production volume. But if economy has reached full employment, further increase in the money supply lead to inflation. « When full employment is reached, any attempt to increase investment still further will set up a tendency in money-prices to rise without limit, irrespective of the marginal propensity to consume; i.e. we shall have reached a state of true inflation» [2].

In spite of initial negative reaction to the book of Keynes, new ideas have spread fairly quickly. The provisions of that public policy should be directed to the expansion of production and employment included in the official documents of the UK, USA, France, in the postwar period. Before the appearance of the work Keynes's «maintaining full employment» was never seen by economists as a political goal.

And until 1973 the Western world has developed with virtually no economic recessions, showing unprecedented economic growth in combination with full employment. Of course, it is difficult to say that this process was the result only of Keynesian policies, operated by other factors, in particular, the prolonged effect of the post-war economic boom. Nevertheless, the period from the 40s to 1973 – was called the «age of Keynesianism.»

In the 1970s, high inflation caused by primarily

an increase in commodity prices, brought an end to era of prosperity. Economies of many countries for the first time encountered the such a phenomenon as the stagflation: inflation, while reducing production. All this has resulted to a decline in the popularity of Keynesian theory, as many researchers believed that the cause of the recession was a violation of the market mechanism as a result of active government intervention, leading to higher prices, exacerbate the problem of the budget deficit. In the changed conditions the state has been forced to switch to support growth and employment to ensure price stability, external balance, competitiveness and efficiency. As in science, and politics have intensified the position of the neo-liberals, who strongly against state intervention in the market, even in such sensitive limits, both in theory J. M. of Keynes.

But the crisis of 2008-2009 forced many governments to return to of Keynes theory and the idea of regulation of the economy. Of the major economies, the crisis has affected in the least degree China, whose growth the economy has slowed, but still remained at a high level. The growth of China's GDP decreased from 14.2% in 2007 to 9.6% in 2008 and 9.1% in 2009. In the opinion of Russian economists at the susceptibility of the Chinese economy to the global crisis has contributed a range of factors. And among them the emphasizes that «domestic demand has become the main engine of development China's economy. This process is determined by the growth of China's GDP, incomes and high levels of investment» [3, p.5]. As a result of the measures taken has been stimulated

domestic demand (both consumption and production), which contributed to the realization of a large part of export products in China. Thus, on the one hand, the government has taken steps to stimulate demand, but on the other hand, China's economy has been able to respond to this demand, which ensured high rates of economic growth even during the crisis period. In the countries European Union a package of measures designed by the European Commission, involves the allocation of 200 billion. Euro, in particular unemployment benefits, state support of industrial production [4].

In our country, as a result of stabilization policy economic growth in 2009, although it declined in comparison with the pre-crisis period, they remained in a positive segment and amounted to 1.2%. «Almost \$ 20 billion – 14 percent of Kazakhstan's GDP – has been allocated for maintenance employment, repair and construction of roads, improvement of towns and villages» [5].

Today, economic development takes place in the new global reality, and public policy must take account of these changing conditions. For the successful development it is necessary to stabilize the financial and monetary system and, of course, you need to trust the state. Exactly these areas is emphasized by the modern policy of Kazakhstan.

After the appearance of Keynes's «General Theory» is impossible to imagine a return to the old principles of the free market, almost all states in varying degrees in the development of their programs are based on the Keynesian methods of regulating the economy.

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