



JAYOTI VIDYAPEETH WOMEN'S UNIVERSITY, JAIPUR

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Faculty of Education and Methodology

Faculty Name- JV'n Dr. Md Meraj Alam

Program- BA B.Ed 3rd Semester

Course- Macroeconomics

Digital session name – **An Introduction to Keynesian Theory of Employment**

Introduction:

The most striking feature of the Keynesian theory lies in its nomenclature. In entitling his book *The General Theory of Employment, Interest and Money*, stressing the prefix 'general,' Keynes' object was to contract his theory of employment with that of classical economists. He argued that the postulates of the classical theory are applicable to a special case of full employment only and not to the general case. The fundamental assumption of full employment condition by classical economists is itself not very realistic, and hence Keynes regarded it as only a special case.

Generally, according to Keynes, there is always less than full employment equilibrium in the economy; full employment is only a rare phenomenon. He claimed his theory to be general in the sense that it deals with all levels of employments in all cases. Keynesian theory is "general" in terminology also. His is a macro-economic analysis. Keynes deals with the economic system as a whole in contrast with the classical theory which is micro-economic in the sense that it relates primarily to the individual economic entities in the system.

In his theory, Keynes refers to concepts such as demand, consumption, investment, saving, employment, income and output in the aggregate sense or as pertaining to the economic system as a whole. Moreover, his analysis is not time-bound as the terminology he employs is general or applicable "at any point of time."

Furthermore, Keynesian economics essentially takes a short-term view. Keynes deals primarily with short-term phenomena in economic life and therefore, many of the strategic variables in his theory like the consumption function, interest rates, etc. are assumed to be constant since they change very little in the short period. Keynesian theory is not just for a theory's sake. It is based on empirical foundation and has policy implications.

From the policy point of view, though Keynes did not have much faith in laissez faire policy and its automatic adjustment for optimisation, he favoured capitalism. He suggested a reform in pure capitalism through government intervention in the economic field for making necessary adjustments in order to ensure smooth operation of a free enterprise economy. Thus, Keynes' book, in fact, is a repudiation of the foundations of laissez faire."

Keynesian theory also indicates the mode of monetary and fiscal policies in different economic situations, like inflation and deflation. Keynesian policy measures like deficit financing are being adopted by many developing countries as a means of development finance. To quote Dillard in this context, "Keynes did not forge new tools of analysis just for the love of tool making. His ideas are operationally significant and have been translated into action by statement."