There is an ideological war between the French and the English.
You will be surprised to learn that most conservatives side with the French.

The French economist is J.B. Say.
The English economist is John Maynard Keynes.

Say’s Law
Tout travail crée sa propre consommation
Ricardo traitor to the Crown

- Agreed with Say’s law that “supply creates its own demand”
- And endorsed another French sounding idea

Laissez faire

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Say’s Law at the movies

*If You Build It....  
....They Will Come*

Supply creates its own Demand!

Field of Dreams Movie Site

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The challenger’s reply

*I beg to differ. Supply does not create demand. It is a tempestuous interaction and sometimes the opposite is true.*
Business Cycle

![Diagram of Business Cycle]

Two ways of looking at the Business Cycle

- One could look at the long run.
- One can consider the short run erratic behavior of the cycle as statistical noise.
- One can argue leave it alone and applaud the market’s long run performance.
- One could look at the short run.
- One can argue the macro economy is unstable and can lead to undesirable outcomes.
- One can argue some entity (government) has to step in and correct for this erratic behavior!

Laissez Faire

- This is the long run view.
- These economist argue the market through flexible prices and wages will correct itself!
- They believe unsold goods and unemployed labor can and will emerge, but both would disappear as soon as people have time to adjust prices and wages.
Keynesian View

- Keynes asserted that a market driven economy is inherently unstable.
- He argued that expectation (psychology) of consumers and business is determined by the short run market performance.
- Although he believed in the long run performance of the market system, he argued that we are all dead in the long run! (remember he was trying to save capitalism!)

Proving his point

- Keynes attacked the idea of Say’s by showing:
  - Prices do not correct for the macroeconomic failure

The Historical Record
1900-1940

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During the 1970s this pattern of high unemployment and falling prices did not hold. Leading to the revival of laissez faire schools of thought!

The Historical Record
1930-2000

During war time Government Spending Increases

- Great Depression
- WWII
- Korean War
- Vietnam War
- End of Vietnam War
- Reagan's increased Cold War spending
- End of Cold War

- WWII Ends